MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY

JUNE 23, 1982

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MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY

WEDNESDAY, JUNE 23, 1982

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 424, Russell Senate Office Building, Hon. Lowell Weicker, Jr. (chairman of the committee) presiding.

Present: Senators Weicker, Nunn, and Gorton.

Also present: Robert M. Wilson, majority counsel; Alan L. Chvotkin, chief minority counsel; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. LOWELL WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT, AND CHAIRMAN, COMMITTEE ON SMALL BUSINESS

Senator WEICKER. Today the committee will hear testimony from minority entrepreneurs and Government witnesses about the contributions that minority businesses make to the economy and the country. I would like to start by commending my colleagues, Senator Gorton and Senator Nunn, for their involvement in this important hearing on a very timely subject.

With business failures at record levels and unemployment climbing at an alarming rate, we here in Congress, and those in the administration, must begin to search for solutions. In our search, we must not overlook the essential contributions of minority businesses to our economy and our communities. Nor should we overlook the important role they can play in putting that economy back on its feet again.

I would like to point out at the outset that this committee and this chairman have long been committed to programs which foster minority business development. Unfortunately, the full potential of the minority business community has yet to be realized. I am hopeful that this hearing today will identify those factors that inhibit growth and expansion of minority-owned businesses.

To a large extent, the fate of our economic structure rests with our small businesses, which are really the heart of our cities and our local communities. This is also true of minority-owned small businesses.

If plans for local economic development, job creation, and the renewal of our urban areas are to succeed in the months ahead, small businesses, particularly minority small businesses, will have to play a role.

As I have said before, for people to care about our economic system, they must have a stake in it. Therefore, it makes both economic and political sense to promote minority business through effective Federal Government and private sector advocacy programs.

I trust that in the formulation of their policies in the months to come the Administration will keep some of the points raised in today's hearing in mind. Certainly we need to continue the process of bringing more minority participants into our country's economic mainstream, and we ought to acknowledge and reaffirm the Federal Government's role and commitment to those goals.

The first witnesses that the committee will hear are Mr. Earl Graves of the Earl Graves Publishing Co. of New York City and Mr. John Hall, president of Mark Battle Associates of Washington, D.C.

Gentlemen, it's a great pleasure to have you before the committee. Please proceed in any way you deem fit.

STATEMENT OF EARL G. GRAVES, PRESIDENT, EARL G. GRAVES LTD., NEW YORK, N.Y.

Mr. GRAVES. Thank you, Mr. Chairman.

My name is Earl Gilbert Graves. I am president of Earl G. Graves, Ltd., a communications company headquartered in New York.

I also bring greetings from two old friends of yours, Peter Malcomb and Henry Bakker.

I want to thank you for the opportunity to present my views on minority business and its contributions to the U.S. economy. I would also like to thank this committee for providing this forum for such a crucial and timely topic. Before I present my comments on the historical significance of black entrepreneurial development, I would first like to describe for you the development of my own business.

Prior to his tragic and untimely death, I was an assistant to the late Senator Robert F. Kennedy. Shortly following his assassination in 1968 I launched Earl G. Graves Associates, a consulting firm on minority business development.

In fulfilling my contractual obligations to my clients, I became acutely aware of the need for a publication that would specifically address the problems and concerns of minority entrepreneurship.

Hence, in August 1970 with a loan of $175,000 from Chase Manhattan Bank, and a mailing list of 100,000 minority entrepreneurs, professionals, and policymakers in Government and industry, we published the first issue of Black Enterprise magazine.

I might also say, parenthetically that that $175,000 loan was an SBA guaranteed loan. I can also say to you that the interest was not minority that we paid in those days.

The introduction of Black Enterprise magazine coincided with the surge in national interest in black capitalism, which was the basis for our phenomenal success. Over the 12-year period since we began publishing Black Enterprise magazine, our subscriber roles have increased from 100,000 to 250,000, and our advertising revenues have increased from $1.4 million in our first year to $5.8 million today.

During this same period, my company expanded its interests in the communications area to include the ownership of two radio stations, KNOK-FM and KSAX-AM in the Dallas/Fort Worth metroplex, and a freestanding coupon inserts company, B.C.I. Marketing, Inc., a distributor of coupon interests to black and general market newspapers.

Combined sales for my companies last year totaled $8.6 million, placing us No. 73 on the Black Enterprise 100 listing of the Nation's leading black-owned businesses.

As editor and publisher of Black Enterprise magazine, it has been my good fortune to record the most recent wave of growth of black-owned businesses in this Nation.

Contrary to much of previously recorded history, the stories of successful black businessmen and women are as old as the history of America itself. Many of the blacks who arrived on the shores of this new land in the 17th century as slaves or as indentured servants were able to purchase their freedom, buy their own land, and partake in the mainstream of infant America.

However, then this country's first Government passed laws against blacks earning money within certain town limits. Laws forbidding blacks from buying land or conducting any business in populated areas soon followed.

After the Revolutionary War, American blacks shared in postwar economic activity until fear of competition by white counterparts led to another round of restrictive laws and intensified oppression. This history was to repeat itself after every major war. Blacks made large economic gains in wartime years that were soon lost after the wars ended.

In our proud history there have been many major black shipbuilders and shippers. We have seen highly successful black merchants who pioneered in the fields of catering, barbering, and clothing manufacturing.

However, it was all taken away in the mid-19th century by another set of restrictive laws designed to protect the large influx of European immigrants. In 1930, for example, black Americans owned 70,000 businesses and 134 banks. It was all lost during the Depression. The last significant growth period for black businesses began after the civil rights movement in this country in the 1960's.

This June's issue of Black Enterprise magazine examined the growth of the leading black-owned companies in America over the past decade and within the last year. Let me share some of the facts with you.

Total revenues for the top 100 black-owned businesses grew by 24.2 percent in the past year, from $1.5 billion to $1.9 billion. The cutoff point for inclusion on the Black Enterprise 100 list was $6.5 million in sales last year as compared to $5.2 million for the previous year.

More important than the remarkable growth in the past year is the substantial progress that the top 100 black-owned businesses made over the past decade. Ten years ago when we compiled the first BE 100 list, that list totaled $459 million in sales. The 1982 list comes very close to $2 billion in sales. When adjusted for inflation, this marks a real increase of more than 80 percent. During the

same period, the gross national product grew by only 24 percent in constant dollars.

The bottom line is that the top 100 black-owned businesses in America grew at a rate of more than three times that of the economy at large during the past decade. That is, I am sure you will agree, an incredible achievement in the face of unrelenting inflation, an energy crisis, high interest rates, credit crunches, and our traditional problems of access to capital and markets.

Strongest growth for the BE 100 occurred in the middle and lower reaches of the list between 1972 and 1981. The median sales for our middle-size companies skyrocketed more than 500 percent in the last 10 years, from $2.3 million in 1972 to $13.4 million in 1981. This represented a gain in constant dollars of 159 percent.

The cutoff point for inclusion on the BE 100 in 10 years jumped from $1 million in its first year to $6.5 million.

The first BE 100 list was dominated by firms in three strong consumer-oriented categories: automobile dealerships, entertainment businesses, and publishing firms. In recent years, however, the top 100 list has become more diversified, showing strong performances by companies involved in new technologies and in energy distribution, as well as firms that cater primarily to black consumers.

Construction companies located in major cities where there is considerable black political clout, such as Atlanta, Ga., Senator Nunn's home State, have also made substantial gains in recent history.

During this decade, the number of paid employees for the top 100 companies increased by over 127 percent, from 9,267 paid employees in 1972 to 21,043 paid employees in 1981.

BE 100 companies are located in 22 States and the District of Columbia. States with the largest concentrations of BE 100 companies are primarily those with the largest percentage of the black population: New York, California, Michigan, Georgia, Illinois, and Ohio.

A careful review of the last decade of the history of leading black-owned businesses in this country documents that our businesses suffered a temporary setback during the recession of 1975. However, that setback was quickly followed by a swift and strong recovery which made 1976 the second best year in the black enterprise decade.

Despite the seemingly phenomenal growth experienced by companies listed on the BE 100, the outlook for the future is still cloudy. We will not know the full impact of the current recession for some time. However, early indications are not good.

In the auto industry, for example, where blacks were once represented in substantial numbers as auto dealership owners and operators, the situation is grave indeed. Like the vast majority of minority-owned businesses in this country, minority-owned auto dealerships are a very recent development.

In 1973, 16 auto dealers made the BE 100 list. The numbers grew steadily until 1978 when nearly half of the businesses on the BE 100, 42, were auto dealerships. There were 32 auto dealerships listed on this year's BE 100. During the mid-1970's, there were about 300 minority-owned auto dealerships. That number has been cut almost in half during this current downturn.

General Motors, which had the largest number of minority-owned auto dealerships, lost 13 in 1980 and 1981, and 6 during the first 2 months of this year. Many existing auto dealerships are literally hanging on by their fingernails wondering how they are going to survive the next few months.

Additionally, the present atmosphere of Government budget cuts and changes in regulations of such efforts as the SBA 8(a) program are placing many black-owned firms in a very precarious position. Many of these firms that were once able to secure contracts from the private sector on the basis of their successful participation in the SBA 8(a) program and Federal procurement program are beginning to find that even these limited opportunities are no longer available to them.

While there is widespread debate even among the black enterprise board of economists concerning the role that the Federal Government should play in private enterprise, there is universal agreement that governmental policies and regulations do have an impact, both positively and negatively, upon the marketplace.

Because discrimination has resulted in a capital gap, noted economist Dr. William Bradford of the University of Maryland feels that, "There is justification in the Government's stepping in to assist people who are going into business."

The American Stock Exchange Chairman Arthur Levitt, who also chaired the 1980 White House Conference on Small Business, feels that for Government, "Not to get involved is tantamount to putting a foreclosure sign on the doors of black businesses."

"The new beginning hailed by this administration," Levitt said, "can and should be a new beginning for black businesses, too. It should and must be the beginning of a drive to keep black businesses in the black * * * and very much in business."

As editor and publisher of Black Enterprise magazine, and as a businessman who happens to be black, I would hope that the outcome of these hearings and of any resulting legislation will do just that: Keep black business in the black and in business.

Thank you.

[The prepared statement of Mr. Graves follows:]

MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE UNITED STATES ECONOMY

STATEMENT BY

EARL G. GRAVES

PRESIDENT, EARL G. GRAVES LTD.

EDITOR & PUBLISHER, BLACK ENTERPRISE MAGAZINE

BEFORE THE

SENATE COMMITTEE ON SMALL BUSINESS

JUNE 23, 1982

MR. CHAIRMAN. SENATOR NUNN. DISTINGUISHED COMMITTEE MEMBERS.

MY NAME IS EARL GILBERT GRAVES. I AM PRESIDENT OF EARL G. GRAVES, LTD., A COMMUNICATIONS COMPANY HEADQUARTERED IN NEW YORK CITY. I WANT TO THANK YOU FOR THE OPPORTUNITY TO PRESENT MY VIEWS ON "MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY." I WOULD ALSO LIKE TO THANK THIS DISTINGUISHED COMMITTEE FOR PROVIDING THIS FORUM FOR SUCH A CRUCIAL AND TIMELY TOPIC. BEFORE I PRESENT MY COMMENTS ON THE HISTORICAL SIGNIFICANCE OF BLACK ENTREPRENEURIAL DEVELOPMENT, I WOULD FIRST LIKE TO DESCRIBE FOR YOU THE DEVELOPMENT OF MY OWN BUSINESS.

PRIOR TO HIS TRAGIC AND UNTIMELY DEATH, I WAS AN ASSISTANT TO THE LATE SENATOR ROBERT F. KENNEDY. SHORTLY FOLLOWING HIS ASSASSINATION IN 1968, I LAUNCHED EARL G. GRAVES ASSOCIATES--A CONSULTING FIRM ON MINORITY BUSINESS DEVELOPMENT. IN FULFILLING MY CONTRACTUAL OBLIGATIONS TO MY CLIENTS, I BECAME ACUTELY AWARE OF THE NEED FOR A PUBLICATION THAT WOULD SPECIFICALLY ADDRESS THE PROBLEMS AND CONCERNS OF MINORITY ENTREPRENEURSHIP. HENCE, IN AUGUST OF 1970 WITH A LOAN OF $175,000 FROM CHASE MANHATTAN BANK, AND A MAILING LIST OF 100,000 MINORITY ENTREPRENEURS, PROFESSIONALS, AND POLICY MAKERS IN GOVERNMENT AND INDUSTRY, WE PUBLISHED THE FIRST ISSUE OF BLACK ENTERPRISE MAGAZINE.

THE INTRODUCTION OF BLACK ENTERPRISE MAGAZINE COINCIDED WITH THE SURGE IN NATIONAL INTEREST IN BLACK CAPITALISM, WHICH WAS THE BASIS FOR OUR PHENOMENAL SUCCESS. OVER THE TWELVE YEAR PERIOD SINCE WE BEGAN PUBLISHING BLACK ENTERPRISE, OUR SUBSCRIBER ROLLS HAVE INCREASED FROM 100,000 TO 250,000, AND OUR ADVERTISING REVENUES HAVE ALSO INCREASED FROM $1.4 MILLION IN OUR FIRST YEAR TO $5.8 MILLION TODAY.

DURING THIS SAME PERIOD, MY COMPANY EXPANDED ITS INTERESTS IN THE COMMUNICATIONS AREA TO INCLUDE OWNERSHIP OF TWO RADIO PROPERTIES--KNOK-FM AND KSAX-AM IN THE DALLAS/FORT WORTH METROPLEX--AND A FREE STANDING COUPON INSERTS COMPANY--B.C.I. MARKETING, INC., A DISTRIBUTOR OF COUPON INSERTS TO BLACK AND GENERAL MARKET NEWSPAPERS. COMBINED SALES FOR MY COMPANIES LAST YEAR TOTALLED $8.6 MILLION, PLACING US NUMBER 73 ON THE "BLACK ENTERPRISE 100" LISTING OF THE NATION'S LEADING BLACK-OWNED BUSINESSES.

AS EDITOR AND PUBLISHER OF BLACK ENTERPRISE MAGAZINE, IT HAS BEEN MY GOOD FORTUNE TO RECORD THE MOST RECENT WAVE OF GROWTH OF BLACK-OWNED BUSINESSES IN THIS NATION.

CONTRARY TO MUCH OF PREVIOUSLY RECORDED HISTORY, THE STORIES OF SUCCESSFUL BLACK BUSINESSMEN AND WOMEN ARE AS OLD AS THE HISTORY OF AMERICA. MANY OF THE BLACKS WHO ARRIVED ON THE SHORES

OF THIS NEW LAND IN THE SEVENTEENTH CENTURY AS SLAVES OR INDENTURED SERVANTS WERE ABLE TO WORK TO PURCHASE THEIR FREEDOM--BUY THEIR OWN LAND AND PARTAKE IN THE MAINSTREAM OF INFANT AMERICA. BUT THEN THIS COUNTRY'S FIRST GOVERNMENT PASSED LAWS AGAINST BLACKS EARNING MONEY WITHIN CERTAIN TOWN LIMITS. LAWS FORBIDDING BLACKS FROM BUYING LAND OR CONDUCTING ANY BUSINESS IN POPULATED AREAS SOON FOLLOWED.

AFTER THE REVOLUTIONARY WAR, AMERICAN BLACKS SHARED IN POST-WAR ECONOMIC OPPORTUNITY UNTIL FEAR OF COMPETITION BY WHITE COUNTERPARTS LED TO ANOTHER ROUND OF RESTRICTIVE LAWS AND INTENSIFIED OPPRESSION. THIS HISTORY WAS TO REPEAT ITSELF AFTER EVERY MAJOR WAR. BLACKS MADE LARGE ECONOMIC GAINS IN WARTIME YEARS THAT WERE LOST SOON AFTER THE WARS ENDED.

IN OUR PROUD HISTORY, THERE HAVE BEEN MAJOR BLACK SHIPBUILDERS AND SHIPPERS. WE HAVE SEEN HIGHLY SUCCESSFUL BLACK MERCHANTS WHO PIONEERED IN THE FIELDS OF CATERING, BARBERING AND CLOTHING MANUFACTURING. BUT IT WAS ALL TAKEN AWAY IN THE MID-NINETEENTH CENTURY BY ANOTHER SET OF RESTRICTIVE LAWS DESIGNED TO PROTECT THE LARGE INFLUX OF EUROPEAN IMMIGRANTS. IN 1930, FOR EXAMPLE, BLACK AMERICANS OWNED 70,000 BUSINESSES AND 134 BANKS. BUT, IT WAS ALL LOST DURING THE DEPRESSION. THE LAST SIGNIFICANT PERIOD OF GROWTH FOR BLACK BUSINESSES BEGAN AFTER THE CIVIL RIGHTS MOVEMENT IN THE LATE SIXTIES.

THIS JUNE'S ISSUE OF BLACK ENTERPRISE MAGAZINE EXAMINED THE GROWTH OF THE LEADING BLACK-OWNED COMPANIES IN AMERICA OVER THE PAST DECADE AND WITHIN THE LAST YEAR. LET ME SHARE SOME OF THE FACTS WITH YOU.

TOTAL REVENUES FOR THE "TOP 100" BLACK-OWNED BUSINESSES GREW 24.2 PERCENT IN THE PAST YEAR--FROM $1.5 BILLION TO $1.9 BILLION. THE CUTOFF POINT FOR INCLUSION ON THE "BLACK ENTERPRISE 100" LIST WAS $6.5 MILLION IN SALES THIS YEAR, AS COMPARED TO $5.2 MILLION FOR LAST YEAR'S LIST.

MORE IMPORTANT THAN THE REMARKABLE GROWTH IN THE PAST YEAR, IS THE SUBSTANTIAL PROGRESS THAT THE "TOP 100" BLACK-OWNED BUSINESSES MADE OVER THE PAST DECADE. TEN YEARS AGO WHEN WE COMPILED THE FIRST "BE 100 LIST, THAT LIST TOTALLED $459 MILLION IN SALES. THE 1982 LIST COMES VERY CLOSE TO $2 BILLION IN SALES. WHEN ADJUSTED FOR INFLATION, THIS MARKS A REAL INCREASE OF MORE THAN 80 PERCENT. DURING THIS SAME PERIOD, THE GROSS NATIONAL PRODUCT GREW BY ONLY 24 PERCENT IN CONSTANT DOLLARS.

THE BOTTOM LINE IS THAT THE "TOP 100" BLACK-OWNED BUSINESSES IN AMERICA GREW AT A RATE OF MORE THAN THREE TIMES THAT OF THE ECONOMY AT LARGE DURING THE PAST DECADE. THAT IS--I'M SURE YOU'LL AGREE--AN INCREDIBLE ACHIEVEMENT IN THE FACE OF UNRELENTING INFLATION, AN ENERGY CRISIS, HIGH INTEREST RATES, CREDIT CRUNCHES, AND OUR TRADITIONAL PROBLEMS OF ACCESS TO CAPITAL AND MARKETS.

STRONGEST GROWTH FOR THE "BE 100" OCCURRED IN THE MIDDLE AND LOWER REACHES OF THE LIST BETWEEN 1972 AND 1981. THE MEDIAN SALES FOR OUR MIDDLE-SIZE COMPANIES--THOSE RANKED BETWEEN 50 AND 51--SKYROCKETED MORE THAN 500 PERCENT IN THE LAST TEN YEARS, FROM $2.35 MILLION IN 1972 TO $13.45 MILLION IN 1981. THIS REPRESENTED A GAIN IN CONSTANT DOLLARS OF 159 PERCENT. THE CUTOFF POINT FOR INCLUSION ON THE "BE 100" IN TEN YEARS JUMPED FROM $1 MILLION TO $6.5 MILLION, WHILE THE SALES LEADER FOR EVERY "BE 100" DURING THIS PERIOD--MOTOWN INDUSTRIES--GREW SLIGHTLY FROM $40 MILLION TO $91.7 MILLION.

THE FIRST "BE 100" LIST WAS DOMINATED BY FIRMS IN THREE STRONG CONSUMER-ORIENTED CATEGORIES--AUTOMOBILE DEALERSHIPS, ENTERTAINMENT BUSINESSES AND PUBLISHING FIRMS. IN RECENT YEARS, HOWEVER, THE "TOP 100" LIST HAS BECOME MORE DIVERSIFIED--SHOWING STRONG PERFORMANCES BY COMPANIES INVOLVED IN NEW TECHNOLOGIES AND IN ENERGY DISTRIBUTION, AS WELL AS FIRMS THAT CATER PRIMARILY TO BLACK CONSUMERS. CONSTRUCTION COMPANIES LOCATED IN MAJOR CITIES WHERE THERE IS CONSIDERABLE BLACK POLITICAL CLOUT, SUCH AS ATLANTA, GA--SENATOR NUNN'S HOME STATE--HAVE ALSO MADE SUBSTANTIAL GAINS IN RECENT HISTORY.

DURING THIS SAME DECADE, THE NUMBER OF PAID EMPLOYEES FOR THE "TOP 100" COMPANIES INCREASED BY OVER 127 PERCENT--FROM 9,267

PAID EMPLOYEES IN 1972 TO 21,043 PAID EMPLOYEES IN 1981.

"BE 100" COMPANIES ARE LOCATED IN 22 STATES AND THE DISTRICT OF COLUMBIA. STATES WITH THE LARGEST CONCENTRATIONS OF "BE 100" COMPANIES ARE PRIMARILY THOSE WITH THE LARGEST PERCENTAGE OF THE BLACK POPULATION: NEW YORK, CALIFORNIA, MICHIGAN, GEORGIA, ILLINOIS AND OHIO.

A CAREFUL REVIEW OF THE LAST DECADE OF THE HISTORY OF LEADING BLACK-OWNED BUSINESSES IN THIS COUNTRY DOCUMENTS THAT OUR BUSINESSES SUFFERED A TEMPORARY SETBACK DURING THE RECESSION OF 1975. BUT THAT SETBACK WAS FOLLOWED VERY QUICKLY BY A SWIFT AND STRONG RECOVERY WHICH MADE 1976 THE SECOND BEST YEAR IN THE BLACK ENTERPRISE DECADE.

DESPITE THE SEEMING PHENOMENAL GROWTH EXPERIENCED BY COMPANIES LISTED ON THE "BE 100", THE OUTLOOK FOR THE FUTURE IS STILL CLOUDY. WE WILL NOT KNOW THE FULL IMPACT OF THE CURRENT RECESSION FOR SOME TIME, HOWEVER, EARLY INDICATIONS, ARE NOT GOOD. IN THE AUTO INDUSTRY, FOR EXAMPLE, WHERE BLACKS WERE ONCE REPRESENTED IN SUBSTANTIAL NUMBERS AS AUTO DEALERSHIP OWNERS AND OPERATORS, THE SITUATION IS GRAVE INDEED. LIKE THE VAST MAJORITY OF MINORITY-OWNED BUSINESSES IN THIS COUNTRY, MINORITY-OWNED AUTO DEALERSHIPS ARE A VERY RECENT DEVELOPMENT.

IN 1973, SIXTEEN AUTO DEALERS MADE THE FIRST "BE 100" LIST. THE NUMBERS GREW STEADILY UNTIL 1978 WHEN NEARLY HALF OF THE BUSINESSES ON THE "BE 100"--42--WERE AUTO DEALERSHIPS. THERE ARE THIRTY AUTO DEALERSHIPS LISTED ON THIS YEAR'S "BE 100". DURING THE MID-SEVENTIES THERE WERE ABOUT 300 MINORITY-OWNED AUTO DEALERSHIPS. THAT NUMBER HAS BEEN CUT ALMOST IN HALF DURING THIS CURRENT DOWNTURN. GENERAL MOTORS, WHICH HAD THE LARGEST NUMBER OF MINORITY-OWNED DEALERSHIPS, LOST THIRTEEN IN 1980 AND 1981, AND SIX DURING THE FIRST TWO MONTHS OF THIS YEAR. MANY EXISTING AUTO DEALERSHIPS ARE LITERALLY HANGING ON BY THEIR FINGERNAILS, WONDERING HOW THEY ARE GOING TO SURVIVE THE NEXT FEW MONTHS.

ADDITIONALLY, THE PRESENT ATMOSPHERE OF GOVERNMENT BUDGET CUTS AND CHANGES IN REGULATIONS OF SUCH EFFORTS AS THE SBA 8(a) PROGRAM ARE PLACING MANY BLACK-OWNED FIRMS IN A VERY PRECARIOUS POSITION. MANY OF THESE FIRMS THAT WERE ONCE ABLE TO SECURE CONTRACTS FROM THE PRIVATE SECTOR ON THE BASIS OF THEIR SUCCESSFUL PARTICIPATION IN THE SBA 8(a) AND FEDERAL PROCUREMENT PROGRAMS ARE BEGINNING TO FIND THAT EVEN THESE LIMITED OPPORTUNITIES ARE NO LONGER AVAILABLE TO THEM.

WHILE THERE IS WIDESPREAD DEBATE--EVEN AMONG THE BLACK ENTERPRISE BOARD OF ECONOMISTS--CONCERNING THE ROLE THE FEDERAL GOVERNMENT SHOULD PLAY IN PRIVATE ENTERPRISE, THERE IS UNIVERSAL AGREEMENT

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THAT GOVERNMENTAL POLICIES AND REGULATIONS DO HAVE AN IMPACT--BOTH POSITIVELY AND NEGATIVELY--UPON THE MARKETPLACE.

BECAUSE DISCRIMINATION HAS RESULTED IN A "CAPITAL GAP", NOTED ECONOMIST DR. WILLIAM BRADFORD OF THE UNIVERSITY OF MARYLAND FEELS THAT, "THERE IS JUSTIFICATION IN THE GOVERNMENT'S STEPPING IN TO ASSIST PEOPLE WHO ARE GOING INTO BUSINESS."

AMERICAN STOCK EXCHANGE CHAIRMAN ARTHUR LEVITT, WHO ALSO CHAIRED THE 1980 WHITE HOUSE CONFERENCE ON SMALL BUSINESS, FEELS THAT FOR GOVERNMENT, "NOT TO GET INVOLVED IS TANTAMOUNT TO PUTTING A FORECLOSURE SIGN ON THE DOORS OF BLACK BUSINESSES."

"THE NEW BEGINNING HAILED BY THIS ADMINISTRATION," LEVITT SAID, CAN AND SHOULD BE A NEW BEGINNING FOR BLACK BUSINESSES TOO. IT SHOULD AND MUST BE THE BEGINNING OF A DRIVE TO KEEP BLACK BUSINESSES IN THE BLACK...AND VERY MUCH IN BUSINESS."

AS EDITOR AND PUBLISHER OF BLACK ENTERPRISE MAGAZINE, AND AS A BUSINESSMAN WHO HAPPENS TO BE BLACK, I WOULD HOPE THAT THE OUTCOME OF THESE HEARINGS AND OF ANY RESULTING LEGISLATION WILL DO JUST THAT: "KEEP BLACK BUSINESS IN THE BLACK... AND IN BUSINESS."

THANK YOU.

Senator WEICKER. Thank you very much, Mr. Graves.

Mr. Hall, why do we not hear from you?

I know we have been joined by the ranking member, Senator Nunn, and my good friend, Senator Gorton from Washington, will be chairing the hearing. I am sure they will have some statements to make, but so that we have continuity, Mr. Hall, why do you not proceed with your comments.

STATEMENT OF JOHN HALL, PRESIDENT, MARK BATTLE ASSOCIATES, INC., WASHINGTON, D.C.

Mr. HALL. Thank you very much, Mr. Chairman, Senator Nunn, and Senator Gorton.

My name is John Hall. I am president of Mark Battle Associates, and I am a member of Progress, Inc., and the Black Presidents' Roundtable Association, two minority business trade associations.

I very much appreciate your invitation to appear this morning and testify on the subject of minority business development programs and the contributions minority businesses have made to the U.S. economy.

With your permission, Mr. Chairman, I would like to submit my entire statement for the record and summarize it orally.

Senator WEICKER. For the record, your statement will be included in its entirety.

[The prepared statement of Mr. Hall follows:]

mark battle associates, inc.

STATEMENT BY

JOHN HALL

PRESIDENT OF MARK BATTLE ASSOCIATES, INC.

MEMBER OF PROGRESS, INC.

MEMBER OF THE BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. SENATE

JUNE 23, 1982

1019 19TH STREET, N.W., SUITE 300, WASHINGTON, D.C. 20036 (202) 466-2530
3400 MONTROSE PLACE, SUITE 702, HOUSTON, TEXAS 77006 (713) 520-9022

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS JOHN HALL. I AM PRESIDENT OF MARK BATTLE ASSOCIATES, INC., AND I AM A MEMBER OF PROGRESS, INC., AND THE BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION--TWO MINORITY BUSINESS TRADE ASSOCIATIONS. MY BACKGROUND INCLUDES MORE THAN TEN YEARS OF CONSULTING IN URBAN ECONOMIC DEVELOPMENT, WITH PARTICULAR EMPHASIS ON SMALL BUSINESS DEVELOPMENT. I HAVE RECENTLY CONDUCTED SPECIFIC RESEARCH ON THE 8(a) PROGRAM OF THE U.S. SMALL BUSINESS ADMINISTRATION AND ITS IMPORTANCE AS A COMPONENT OF A NATIONAL MINORITY ENTERPRISE DEVELOPMENT POLICY, RESULTING IN THE DOCUMENT, A CASE FOR GOVERNMENT SUPPORT OF MINORITY ENTERPRISE, AUGUST 1981.

I APPRECIATE YOUR INVITATION TO APPEAR THIS MORNING TO TESTIFY ON THE SUBJECT OF MINORITY BUSINESS DEVELOPMENT PROGRAMS AND THE CONTRIBUTIONS MINORITY BUSINESSES HAVE MADE TO THE U.S. ECONOMY.

THE RESEARCH WHICH I HAVE RECENTLY CONDUCTED ON BEHALF OF THESE TWO MINORITY BUSINESS TRADE ASSOCIATIONS LEADS ME TO USE THIS TIME TO MAKE THE CASE FOR FIVE SPECIFIC GOALS FOR MINORITY BUSINESS DEVELOPMENT POLICY AND PROGRAMS THROUGHOUT THE FEDERAL GOVERNMENT. THESE GOALS ARE AS FOLLOWS:

THE FEDERAL GOVERNMENT SHOULD:

- PROVIDE INCENTIVES, POLICIES AND PROGRAMS FOR INCREASING THE NUMBER OF MINORITY-OWNED BUSINESSES
- PROVIDE INCENTIVES, POLICIES AND PROGRAMS FOR INCREASING THE NUMBER OF FAST-GROWTH, MINORITY-OWNED BUSINESSES IN THE HIGH TECHNOLOGY INDUSTRIES WHICH TEND TO GENERATE JOBS AT A RAPID RATE

- ELIMINATE THE ARTIFICIAL BARRIERS TO THE DEVELOPMENT OF MINORITY BUSINESSES, THROUGH THE FULL IMPLEMENTATION AND ENFORCEMENT OF EXISTING LAWS, REGULATIONS AND EXECUTIVE ORDERS, AND BY FACILITATING THE PRUDENT AVAILABILITY OF SEED AND EQUITY CAPITAL TO MINORITY BUSINESSES AT AFFORDABLE RATES

- FACILITATE THE DEVELOPMENT OF WELL-PLANNED, CONTROLLED BUSINESS ENVIRONMENTS SUCH AS INDUSTRIAL PARKS AND EMPLOYMENT CENTERS IN LOW-INCOME AREAS (EXCLUSIVE OF ENTERPRISE ZONES) WHICH EFFECTIVELY REDUCE THE COSTS AND THE RISK OF DOING BUSINESS IN THOSE AREAS

- PROVIDE INCENTIVES, POLICIES AND PROGRAMS FOR MINORITY AS WELL AS NONMINORITY BUSINESSES TO LOCATE IN OR NEAR MINORITY COMMUNITIES (EXCLUSIVE OF ENTERPRISE ZONES)

THE REASONS FOR PROMOTING THE ABOVE POLICIES AND PROGRAMS ARE COMPELLING. IT IS QUITE TEMPTING IN THIS RECESSIONARY ENVIRONMENT TO BLAME THE DISMALLY HIGH MINORITY UNEMPLOYMENT RATES ON CYCLICAL FACTORS WHICH ARE EXPECTED TO CORRECT THEMSELVES WHEN THE ENTIRE ECONOMY RECOVERS. THE FACTS ARE OVERWHELMING, HOWEVER, THAT THE HUGE NUMBERS OF UNEMPLOYED MINORITY AMERICANS, PARTICULARLY UNEMPLOYED BLACK AMERICANS CONCENTRATED IN OUR CENTRAL CITIES, ARE EMERGING AS A PERMANENT DEPENDENT SECTOR OF OUR POPULATION WHICH IS INCREASINGLY DESPERATE FOR SOURCES OF SELF-SUFFICIENCY. WE NEED NO INNOVATION IN THIS SOCIETY TO DESIGN THE MODEL SOURCE OF SELF-SUFFICIENCY--THAT MODEL IS THE SMALL BUSINESS.

HISTORICAL TRENDS INDICATE THAT A STRONG ECONOMIC RECOVERY WILL ONLY DISPROPORTIONATELY HELP MINORITIES. DURING THE ECONOMIC GROWTH PERIOD FROM 1975 TO 1979, WHEN THE OFFICIAL NONMINORITY UNEMPLOYMENT RATE DECREASED FROM 7.8 PERCENT TO 5.1 PERCENT, OR BY 34.6 PERCENT, THE OFFICIAL BLACK

UNEMPLOYMENT RATE DROPPED FROM 13.9 PERCENT TO 11.3 PERCENT OR BY ONLY 18.7 PERCENT. THE CURRENT RATE OF NONWHITE UNEMPLOYMENT IS 16.3 PERCENT COMPARED TO 8.5 PERCENT FOR WHITES.

MORE SIGNIFICANTLY, HOWEVER, THE UNOFFICIAL BLACK UNEMPLOYMENT RATE HAS NOT BEEN UNDER 20 PERCENT IN THE PAST FIVE YEARS (THIS RATE INCLUDES THOSE WHO WANT A JOB BUT NO LONGER ARE ACTIVELY SEEKING ONE AS WELL AS PART-TIME WORKERS WHO WANT FULL-TIME WORK) (SEE EXHIBIT 1). THIS RATE CURRENTLY EXCEEDS 29 PERCENT.

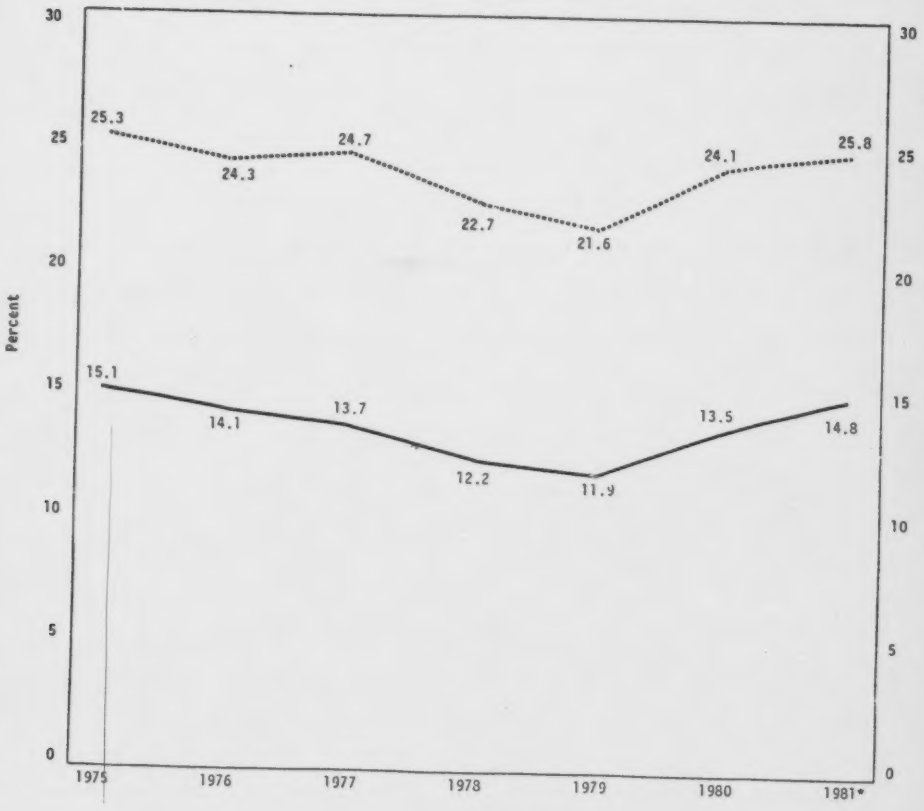
HISTORICAL TRENDS FURTHER SUGGEST THAT THE PROBLEM OF MINORITY UNEMPLOYMENT IS LIKELY TO BE EVEN MOVE SEVERE IN THE FUTURE THAN IT HAS BEEN IN THE PAST. NOT ONLY HAS THE GOVERNMENT SECTOR BEEN CONTRACTING AND LAYING OFF WORKERS IN RECENT MONTHS, BUT TRENDS IN THE LOCATION DECISIONS OF LARGE MANUFACTURERS AS WELL AS SMALL BUSINESSES SUGGEST THAT THE JOBS ARE GOING IN ONE DIRECTION AND MINORITIES ARE GOING IN ANOTHER:

- LARGE U.S. MANUFACTURERS WHICH USED TO LOCATE PRIMARILY IN MAJOR METROPOLITAN AREAS ARE INCREASINGLY RELOCATING IN REMOTE AREAS[1] (MORE THAN 200 MILES AWAY FROM MAJOR METROPOLITAN AREAS). CONTRARY TO POPULAR BELIEF, SMALL BUSINESSES ARE THE PRIMARY SOURCE OF JOBS FOR MINORITIES[2] AND ARE THE DOMINANT CREATOR OF JOBS IN CENTRAL CITIES. HOWEVER, MOST SMALL BUSINESS START-UPS (START-UPS ARE THE SOURCE OF A HIGH PERCENTAGE OF NEW JOBS) ARE NOW IN THE SUBURBS AS OPPOSED TO THE CENTRAL CITIES.[3]

- IN CONTRAST TO NATIONWIDE PATTERNS, PRELIMINARY 1980 CENSUS DATA INDICATE THAT BLACK AMERICANS ARE CONTINUING TO CONCENTRATE IN THE CENTRAL CITIES OF METROPOLITAN AREAS. MORE THAN 14 MILLION BLACKS OUT OF A TOTAL OF 26.5 MILLION BLACKS NOW LIVE IN THE CENTRAL CITIES OF MAJOR METROPOLITAN AREAS, WHILE SIX MILLION OTHERS LIVE IN THE SUBURBS AND RURAL FRINGES OF THOSE AREAS.

EXHIBIT 1

UNOFFICIAL BLACK UNEMPLOYMENT RATE
VERSUS
UNOFFICIAL TOTAL UNEMPLOYMENT RATE



•••••••••• Unofficial black unemployment rate (1980 and 1981 figures include all nonwhites).

——— Unofficial total unemployment rate.

*First quarter.

Source: Compiled by Mark Battle Associates, Inc., from statistics provided by the National Urban League.

AS PROGRAMS PROVIDING RELIEF TO THE DEPENDENT ARE DECREASED, AND THE SIZE OF THE DEPENDENT POPULATION INCREASES, THE NEED FOR SIMULTANEOUS PROGRAMS OF DEVELOPMENT TARGETED TO THAT POPULATION BECOMES CLEAR.

THERE IS STILL AN UNFORTUNATE LACK OF ADEQUATE DATA DESCRIBING THE CURRENT AND HISTORICAL CONDITION OF MINORITY BUSINESSES. HOWEVER, AVAILABLE DATA INDICATE THAT MINORITY-OWNED FIRMS PROVIDE JOBS FOR MORE THAN ONE-HALF OF ONE PERCENT OF THE LABOR FORCE, YET MINORITY AMERICANS ACCOUNT FOR MORE THAN 20 PERCENT OF THE POPULATION. THESE PERCENTAGES REPRESENT AN IMPORTANT OPPORTUNITY FOR MINORITY BUSINESS DEVELOPMENT POLICY, FOR THE UNDERUTILIZED CAPACITY IN THE MINORITY BUSINESS COMMUNITY REPRESENTS A TREMENDOUS FRONTIER OF DEVELOPMENT, AN UNDERUTILIZED SOURCE OF JOB CREATION, INNOVATION, ENTREPRENEURIAL CREATIVITY AND COMPETITION IN AN ECONOMY FACING MASSIVE NEEDS FOR ECONOMIC STIMULATION IN THE CENTRAL CITIES.

A REVIEW OF THE 8(a) PROGRAM OF THE SMALL BUSINESS ADMINISTRATION IS INSTRUCTIVE AS IT RELATES TO HOW THE FEDERAL GOVERNMENT APPROACHES DEVELOPMENTAL NEEDS OF MINORITIES. I FOCUS ON THE 8(a) PROGRAM FOR A PURPOSE. IT IS CLEARLY A CONTROVERSIAL PROGRAM THAT HAS BEEN THE SUBJECT OF A GREAT DEAL OF UNCOMPLIMENTARY PUBLICITY. MY RESEARCH ON THE PROGRAM REVEALED THE DIFFICULTIES HAVE BEEN WIDELY DISSEMINATED BUT <u>THE NOTABLE ACCOMPLISHMENTS OF THE 8(a) PROGRAM ARE NOT WELL KNOWN</u>, ARE NOT UNDERSTOOD AND ARE NOT APPRECIATED BECAUSE THE 8(a) STORY HAS NOT BEEN CONVEYED TO THE PUBLIC IN A BALANCED WAY. NUMEROUS STUDIES HAVE BEEN CONDUCTED THAT HIGHLIGHT THE POSITIVE AND NEGATIVE ASPECTS OF THE PROGRAM. THE FOLLOWING

POSITIVE FACTORS ARE NOT WIDELY KNOWN. THE 8(a) PROGRAM HAS BEEN EFFECTIVE IN:

--PROVIDING OTHERWISE INACCESSIBLE MANAGEMENT EXPERIENCE TO THOUSANDS OF MINORITY-OWNED FIRMS

--PROVIDING THOUSANDS OF MINORITY FIRMS WITH ACCESS TO AN OTHERWISE LARGELY INACCESSIBLE GOVERNMENT PROCUREMENT MARKETPLACE (SEE EXHIBIT 2)

--INCREASING THE CAPACITY IN MINORITY AMERICANS FOR SELF-SUFFICIENCY

--PROVIDING TRACK RECORDS FOR 8(a) FIRMS

--HELPING MANY FIRMS QUALIFY FOR NON-8(a) GOVERNMENT AND COMMERCIAL WORK

--ILLUSTRATING TO MANY SKEPTICAL GOVERNMENT OFFICIALS THAT MINORITY FIRMS CAN PERFORM EFFECTIVELY

--PROVIDING A VARIETY OF TYPES OF SATISFACTORY TECHNICAL AND FINANCIAL ASSISTANCE TO PARTICIPANT FIRMS

--HELPING THOUSANDS OF FIRMS INCREASE SALES AND INCOME

--HELPING MANY FIRMS RESOLVE BONDING PROBLEMS

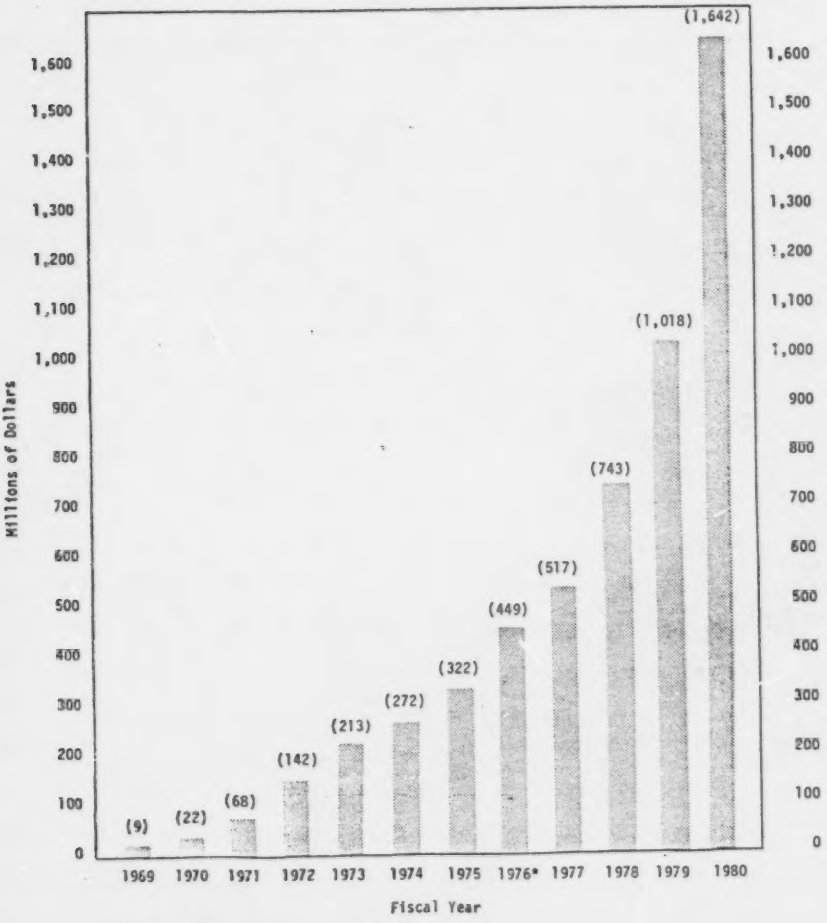
--HELPING MANY FIRMS IMPROVE CREDIT CAPABILITIES

--EXPANDING THE EMPLOYMENT AND SKILLS MIX OF 8(a) FIRMS

BASED ON THE TYPES OF DEVELOPMENTAL NEEDS WHICH EXIST IN MINORITY COMMUNITIES, PARTICULARLY THE ABSENCE OF SIZABLE PROGRAMS THAT HELP MINORITY ENTREPRENEURS TO GAIN VALUABLE MANAGEMENT EXPERIENCE, IT BECOMES CLEAR THAT THE 8(a) PROGRAM IS THE MOST EFFECTIVE FEDERAL MECHANISM DEVELOPED TO DATE TO INCREASE THE MARKET SHARE AND VIABLE PARTICIPATION OF

EXHIBIT 2

TOTAL DOLLAR VALUE
OF 8(a) CONTRACTS PLACED



*15 Month fiscal year includes transition quarter.

Source: The SBA 8(a) Procurement Program--A Promise Unfulfilled, p. 26.

MINORITY AMERICANS IN THE U.S. ECONOMIC MAINSTREAM. FEDERAL GOVERNMENT INTERVENTION IN MANY SECTORS OF THE ECONOMY HAS SERVED AS A BARRIER TO DEVELOPMENT. QUITE THE OPPOSITE IS TRUE WITH RESPECT TO MINORITY ENTERPRISE WHERE CERTAIN FEDERAL PROGRAMS HAVE BEEN QUITE SUCCESSFUL IN SELECTED AREAS AND ARE VITAL TO THE HEALTH OF THE ENTIRE MINORITY BUSINESS COMMUNITY.

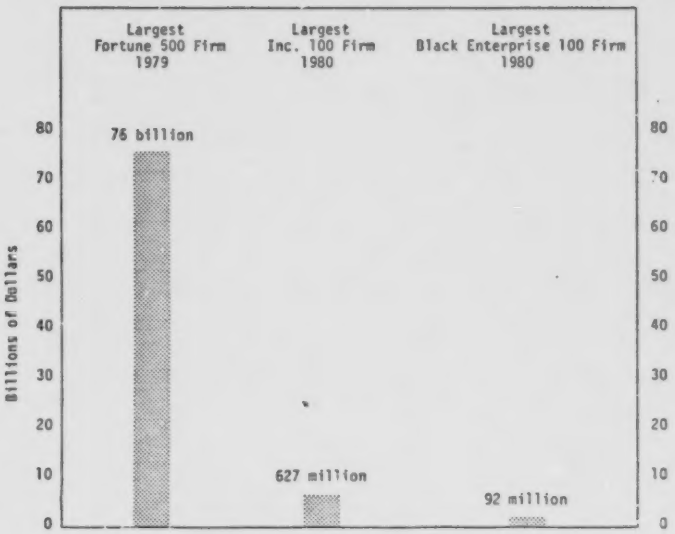
IN 1977, NEARLY 3,500 MINORITY-OWNED FIRMS EMPLOYED MORE THAN 50 EMPLOYEES. HOWEVER, THE DATA MAKE IT VERY CLEAR THAT MINORITY AMERICAN BUSINESSES ARE STILL AT AN EMBRYONIC STAGE OF DEVELOPMENT. A COMPARISON OF THE PERFORMANCE OF SOME OF THE U.S.'s LARGEST MINORITY-OWNED BUSINESSES, THE FASTEST GROWING SMALL NONMINORITY BUSINESSES AND THE LARGEST ESTABLISHED BUSINESSES IN THE U.S. DRAMATICALLY REVEALS THE MAGNITUDE OF THE UNDERUTILIZED CAPACITY IN THE MINORITY BUSINESS SECTOR.

SINCE 1972, BLACK ENTERPRISE MAGAZINE HAS BEEN COMPILING AN ANNUAL LIST OF THE 100 LARGEST BLACK-OWNED FIRMS IN TOTAL REVENUES, THE "BE 100." INC. MAGAZINE ANNUALLY PUBLISHES LISTS OF THE FASTEST GROWING SMALL BUSINESSES IN THE U.S. CALLED THE "INC. 100" AND THE "SECOND INC. 100." THE LARGEST BE 100 FIRM IN 1980 HAD REVENUES OF $92 MILLION.[4] THE LARGEST INC. 100 FIRM IN 1980 HAD REVENUES OF $627 MILLION.[5] IN 1979, THE LARGEST FORTUNE 500 FIRM HAD REVENUES OF $76 BILLION[6] (SEE EXHIBIT 3).

IN 1972, BE 100 FIRMS EMPLOYED 8,623 PERSONS.[7] BY 1980, THIS FIGURE HAD INCREASED BY 206 PERCENT TO 17,848.[8] IF WE ASSUMED THE ORIGINAL BE 100 FIRMS REMAINED ON THE LIST IN 1980, THE HYPOTHETICAL RESULT WOULD REPRESENT THE CREATION OF 9,225 NEW JOBS IN NINE YEARS FOR AN

EXHIBIT 3

LARGEST FIRMS BY SECTOR



Source: John A. Hall, A Case for Government Support of Minority Enterprise, August 1981, p. 31.

AVERAGE OF SLIGHTLY MORE THAN TEN NEW JOBS PER YEAR PER FIRM. BY CONTRAST, THE 1980 LIST OF THE INC. 100 SHOWED ONLY 42 COMPANIES WHOSE GROWTH WAS GENERATED INTERNALLY AND NOT BY ACQUISITIONS. (NONE OF THE BE 100 FIRMS OF 1980 REPORTEDLY GREW BY ACQUISITION.) THESE 42 FIRMS CREATED APPROXIMATELY 19,700 NEW JOBS IN THE PAST FIVE YEARS FOR AN AVERAGE OF 93 NEW JOBS PER YEAR PER FIRM[9] (SEE EXHIBIT 4). ALL MINORITY FIRMS INCREASED TOTAL EMPLOYMENT BY 189,000 JOBS FROM 1972 TO 1977. THIS REPRESENTS THE CREATION OF MORE THAN 30,000 NEW JOBS PER YEAR. COMPARATIVE GROWTH RATES FOR ALL THREE CLASSES OF FIRMS ARE PRESENTED AS EXHIBIT 5.

THE COMPELLING CONTRASTS EXHIBITED BY THESE DATA LEAD TO THE RECOMMENDATION OF THE FOLLOWING SPECIFIC POLICIES AND PROGRAMS WHICH DESERVE IMMEDIATE ATTENTION BY CONGRESS AND THE ADMINISTRATION:

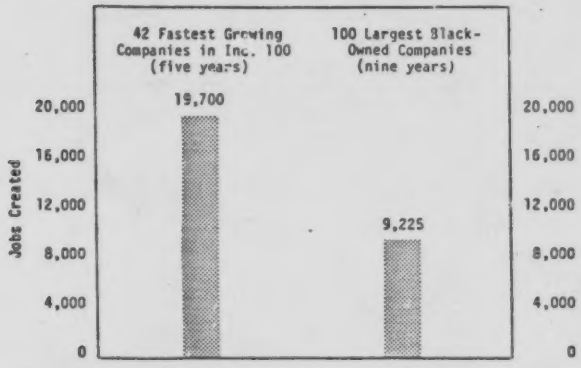
- MINORITY BUSINESS DEVELOPMENT POLICIES SHOULD BE DEVELOPED AND IMPLEMENTED IN COORDINATION WITH OVERALL SMALL BUSINESS DEVELOPMENT POLICIES, AS WELL AS WITH THE OVERALL GOVERNMENT POLICIES FOR THE REVIVAL OF THE U.S. ECONOMY.

- THE IMPORTANCE OF AND THE POTENTIAL BENEFITS TO THE NATIONAL INTEREST OF A STRONG AND HEALTHY MINORITY BUSINESS COMMUNITY SHOULD BE CAREFULLY ARTICULATED AND WIDELY DISSEMINATED TO FEDERAL GOVERNMENT OFFICIALS AND TO THE MEDIA.

- THE FEDERAL GOVERNMENT SHOULD ALLOCATE A GREATER PERCENTAGE OF ITS RESEARCH AND DEVELOPMENT FUNDS TO SMALL BUSINESSES IN GENERAL AND MINORITY BUSINESSES IN PARTICULAR TO STIMULATE MORE SUCCESSFUL HIGH-TECHNOLOGY SMALL BUSINESSES WHICH TEND TO RESULT IN FAST-GROWTH FIRMS GENERATING NEW PERMANENT JOBS AT A HIGH RATE.

EXHIBIT 4

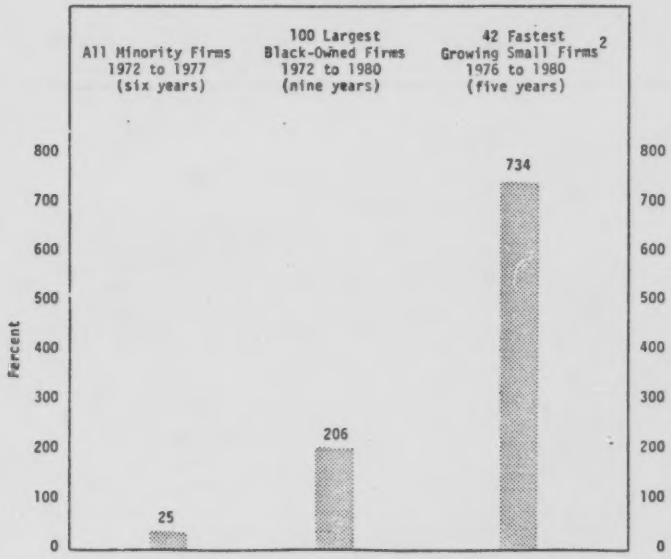
JOBS CREATED BY TOP SMALL BUSINESSES BY SECTOR[1]



[1]Comparative data for the identical span of years (five years) would result in significantly fewer jobs created by the BE 100. The fact that 42 firms in five years created more than 200 percent more jobs than 100 firms created in nine years illustrates dramatically how limited minority business development gains have been.

EXHIBIT 5

GROWTH RATE IN EMPLOYMENT BY SMALL FIRMS[1]



[1]Comparative data for an identical span of years for all three groups were unavailable. Economic conditions existing during the respective periods could significantly raise or lower the comparative cumulative growth rates of each group if all were recorded for the same period.

[2]Firms in the Inc. 100 which grew through acquisitions were excluded.

Source: John A. Hall, A Case for Government Support of Minority Enterprise, August 1981, p. 33.

- SBA SHOULD COMPILE AND WIDELY DISSEMINATE TO ALL GOVERNMENT PROCUREMENT OFFICES, TO THE APPROPRIATE MEDIA AND TO ALL 8(a) FIRM PARTICIPANTS, A DOCUMENT WHICH CLEARLY EXPLAINS THE PROGRAM, ITS COST-EFFECTIVENESS, ITS ACCOMPLISHMENTS AND ITS PRESENT AND FUTURE BENEFITS TO THE NATIONAL INTEREST.

- FEDERAL GOVERNMENT POLICY SHOULD ENCOURAGE THE CONTINUED EXPANSION OF PARTICIPATION OF MINORITY-OWNED FIRMS IN FEDERAL PROCUREMENTS BY ALL FEDERAL DEPARTMENTS AND AGENCIES.

- FEDERAL GOVERNMENT POLICY SHOULD SPECIFICALLY PROMOTE THE USE OF NON-8(a) MINORITY-OWNED FIRMS AS LEGITIMATE GOVERNMENT CONTRACTORS.

- GOVERNMENT POLICIES FOR STIMULATION OF THE ECONOMY SHOULD INCLUDE CAREFULLY TARGETED AND COMPLEMENTARY PROGRAMS SPECIFICALLY DESIGNED TO STIMULATE THE INCREASINGLY ECONOMICALLY DEPRESSED MINORITY COMMUNITIES. SPECIFIC OBJECTIVES FOR ACHIEVEMENT INCLUDE:

  --INCENTIVES (BY WAY OF CONTINGENT GOVERNMENT GRANTS OR TAX BENEFITS) FOR LONG-TERM COOPERATION BY CITY GOVERNMENT LEADERS, LARGE ESTABLISHED BUSINESSES, TRADE ASSOCIATIONS, SMALL BUSINESSES, MINORITY BUSINESSES AND COMMUNITY-BASED ORGANIZATIONS

  --INCENTIVES FOR MINORITY BUSINESSES TO LOCATE IN MINORITY NEIGHBORHOODS, EXCLUSIVE OF URBAN ENTERPRISE ZONES

  --EDUCATIONAL ACTIVITIES AND MATERIALS DESCRIBING THE BENEFITS TO EACH OF THE PARTIES WITH WHOM PARTNERSHIPS ARE REQUIRED FOR EFFECTIVE URBAN REVITALIZATION PROGRAMS

- TAX INCENTIVES SHOULD TO BE IMPLEMENTED THAT ENCOURAGE INVESTMENTS IN SMALL BUSINESSES IN GENERAL AND MINORITY BUSINESSES IN PARTICULAR. INCENTIVES ARE NEEDED TO BEGIN TO FILL THE GAPS IN THE CAPITAL RESOURCES AVAILABLE TO GROWING SMALL FIRMS.

- THE TECHNOLOGY COMMERCIALIZATION PROGRAM OF THE MINORITY BUSINESS DEVELOPMENT AGENCY SHOULD BE EXPANDED TO BECOME A MAJOR FOCAL POINT FOR MINORITY BUSINESS DEVELOPMENT.

- THE MERGERS AND ACQUISITIONS PROGRAM OF THE MINORITY BUSINESS DEVELOPMENT AGENCY SHOULD BE MONITORED AS A POTENTIAL FOCAL POINT FOR MINORITY BUSINESS DEVELOPMENT.

- AN EFFECTIVE MINORITY BUSINESS DEVELOPMENT PROGRAM IS A CRITICAL COMPONENT OF ANY POLICY DESIGNED TO STIMULATE ECONOMIC ACTIVITY IN MINORITY COMMUNITIES AND CAN BE AN IMPORTANT COMPONENT IN A LONG-RANGE PLAN TO REDUCE THE LONG-TERM DEMAND FOR GOVERNMENT SOCIAL WELFARE EXPENDITURES.

FEDERAL GOVERNMENT POLICIES SERIOUSLY NEED TO REFLECT AN APPRECIATION FOR THE IMPORTANCE OF THE INTERLOCKING LINKAGES BETWEEN RECOVERY OF THE U.S. ECONOMY, REVITALIZATION OF ECONOMICALLY DEPRESSED AREAS OF OUR CENTRAL CITIES, HIGH MINORITY UNEMPLOYMENT RATES AND MINORITY BUSINESS DEVELOPMENT PROGRAMS. EACH MINORITY BUSINESS IS A UNIT OF CAPACITY FOR MINORITY SELF-SUFFICIENCY. EXPANDING MINORITY BUSINESSES, THEREFORE, EXPANDS THE MINORITY CAPACITY FOR SELF-SUFFICIENCY. FAILURE OF THE GOVERNMENT TO EXPLOIT THIS FRONTIER OF UNDERUTILIZED CAPACITY THROUGH COST-EFFECTIVE MINORITY BUSINESS DEVELOPMENT PROGRAMS PERPETUATES THE DISPROPORTIONATE DEPENDENCE OF MINORITY AMERICANS ON THE LARGER ECONOMY FOR JOBS AND INCOME SUPPORTS.

THANK YOU, MR. CHAIRMAN

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FOOTNOTES

1. DAVID L. BIRCH, JOB CREATION IN THE CITIES (CAMBRIDGE, MASSACHUSETTS: MIT PROGRAM ON NEIGHBORHOOD AND REGIONAL CHANGE, SEPTEMBER 1980).

2. GEORGE GILDER, WEALTH AND POVERTY (NEW YORK: BASIC BOOKS, INC., 1981), P. 83.

3. DAVID L. BIRCH, CHOOSING A PLACE TO GROW: BUSINESS LOCATION DECISIONS IN THE 1970s (CAMBRIDGE, MASSACHUSETTS: MIT PROGRAM ON NEIGHBORHOOD AND REGIONAL CHANGE, JANUARY 1981), P. 25.

4. STEPHEN GAYLE, "GETTING BACK TO BASICS," BLACK ENTERPRISE, VOLUME 11, NUMBER 11, JUNE 1981, P. 117.

5. BRADFORD W. KETCHUM, JR., "THE INC. 100," INC., VOLUME 3, NUMBER 5, MAY 1981, P. 52.

6. LINDA SNYDER HAYES, "TWENTY-FIVE YEARS OF CHANGE IN THE FORTUNE 500," FORTUNE, MAY 5, 1980, P. 276.

7. THE NATION'S 100 TOP BLACK BUSINESSES, "BLACK ENTERPRISE, VOLUME 3, NUMBER 11, JUNE 1973, PP. 29-45.

8. GAYLE, PP. 117-128.

9. KETCHUM, PP. 51-58.

Mr. HALL. Thank you.

The research which I have recently conducted on behalf of these two minority business trade associations which resulted in the document, "A Case for Government Support of Minority Enterprise," leads me to use this time to make a case for five specific goals for minority business development policy and programs throughout the Federal Government.

These goals are as follows: First, the Federal Government should provide incentives, policies, and programs for increasing the total number of minority-owned businesses throughout the United States.

Second, it should provide incentives, policies, and programs for increasing the number of fast-growth minority businesses in the high technology industries which tend to generate jobs at a rapid rate.

Third, it should eliminate the artificial barriers to the development of minority businesses.

Fourth, it should facilitate the development of well-planned, controlled business environments such as industrial parks and employment centers in low-income areas—this is exclusive of the enterprise zone concept—which effectively reduce the cost and the risk of doing business in those areas.

Fifth, it should provide incentives, policies, programs for minority as well as nonminority businesses to locate in or near minority communities. This recommendation is exclusive of whatever takes place with regard to enterprise zone legislation.

The reasons for promoting the above policies and programs are compelling. It is quite tempting in this recessionary environment to blame the dismally high minority unemployment rates on cyclical

factors which are expected to correct themselves when the entire economy recovers.

The facts are overwhelming, however, that the huge numbers of unemployed minorities, particularly unemployed black Americans concentrated in our central cities, are emerging as a permanent dependent sector of our population which is increasingly desperate for sources of self-sufficiency. As we know, there is no need for innovation in this society to design a model source of self-sufficiency. That model is the small business.

Historical trends indicate that a strong economic recovery will only disproportionately help minorities. During the economic growth period from 1975 to 1979 when the official nonminority unemployment rate decreased by 35 percent, the official black unemployment rate dropped by only 19 percent.

I think more significantly, however, the unofficial black unemployment rate has not been under 20 percent in the last 5 years. It is currently in excess of 29 percent.

Historical trends further suggest that the problem of minority unemployment is likely to be even more severe in the future than it has been in the past. Not only has the Government sector been contracting and laying off workers, but trends in the location decisions of large manufacturers as well as small businesses suggest that jobs are moving in one direction and minorities are moving in another.

According to David Birch of M.I.T., large U.S. manufacturers which used to locate primarily in major metropolitan areas are increasingly locating in remote areas.

George Gilder tells us that contrary to popular belief small businesses are the primary source of jobs for minorities and are the dominant creator of jobs in central cities.

However, again in the last decade, most small business startups have continually begun to emerge in the suburbs as opposed to the central cities.

Census data in 1980 indicate that black Americans, however, are continuing to concentrate in the central cities of metropolitan areas. More than 14 million out of a total of 26.5 million blacks now live in those central cities.

As programs providing relief to the dependent are decreased—this momentum is taking on more significance as the new budget comes out—and the size of the dependent population increases, the need for simultaneous programs of development targeted to that population becomes clear.

As it relates to the appropriate role for minority business development policy in this area, there is still an unfortunate lack of adequate data describing the current and historical condition of minority businesses.

However, available data indicate that minority-owned firms provide jobs for more than one-half of 1 percent of the labor force, and minority Americans account for more than 20 percent of the population.

In 1977, minorities owned 5 percent of U.S. businesses but accounted for less than 1 percent of the U.S. business receipts.

These percentages represent an important opportunity for minority business development policy. They represent underutilized ca-

pacity in the minority business community. A tremendous frontier of development exists here. This is an underutilized source of job creation, innovation, entrepreneurial creativity, and competition in an economy facing massive needs for economic stimulation in the central cities.

What we are speaking of here is essentially a growth market for development policies. As Mr. Graves just discussed, the larger and the faster minority-owned businesses can grow and have grown much faster than the economy.

I have included charts in this testimony that reflect the fact that the differential in the growth rates of minority businesses and other businesses throughout the economy suggest there is tremendous underutilized capacity in the minority business community.

A review of the 8(a) program of the Small Business Administration is particularly instructive as it relates to how the Federal Government approaches development needs of minorities. This controversial program has been the subject of a great deal of uncomplimentary publicity over the years.

Recent research on the program revealed that the difficulties have been widely disseminated but the notable accomplishments of the 8(a) program are not well known, are not understood, and are not appreciated because the 8(a) program has not been conveyed to the public in a balanced way.

This particular program has been effective in: One, providing otherwise inaccessible management experience to thousands of minority-owned firms; providing thousands of firms with access to an otherwise largely inaccessible Government procurement marketplace; increasing the capacity of minority Americans for self-sufficiency; providing track records for 8(a) firms; helping many firms qualify for non-8(a) Government and commerical work. I have a long list of additional benefits of the program.

I think what is particularly important about that program, however, is that these benefits come not from grants but from procurements. For each $1 of procurement aid that goes through the 8(a) program, the Government receives goods and services in return. It makes this particular development program a very cost-effective one, particularly when compared with dependency programs.

Based on the absence of sizable programs that help minority entrepreneurs to gain valuable management experience, it becomes clear in the research that the 8(a) program of the Small Business Administration is the most effective Federal mechanism developed to date to increase the market share and viable participation of minority Americans in the U.S. economic mainstream.

As we know, Federal Government intervention in many sectors of the economy has served as a barrier to development. Quite the contrary is true with respect to minority enterprise where certain Federal programs have been quite successful in selected areas and are vital to the health of the entire minority business community.

In spite of the fact that in 1977 some 3,500 minority-owned businesses employed more than 50 employees each, the data make it very clear that minority American businesses are still at an embryonic stage of development.

Again, as the illustrious Mr. Graves just indicated, the growth in the BE 100 since 1972 has been phenomenal. In 1980, the largest

firm in the BE 100 had revenues of $92 million. Inc. magazine publishes the fastest growing small businesses in the United State, as we are all aware. The largest Inc. 100 firm in 1980 had revenues of $627 million. Of course the largest Fortune 500 firm in 1979 had revenues of $76 billion, again reflective of the underutilized capacity of the minority business community.

From 1972 to 1980, growth in total jobs created by the BE 100 would result hypothetically in an average of 10 new jobs per year per firm. This is a very substantial contribution in many cities and localities.

However, by contrast, the 1980 list of the Inc. 100 showed 42 businesses whose growth was generated internally and not through acquisitions. These 42 firms created an average of 93 new jobs per year per firm.

All minority firms, as reflected in the 1977 census, created more than 30,000 new jobs per year from 1972 to 1977. Again, exhibits 3, 4, and 5 of my testimony provide stark evidence of the underutilized capacity, particularly in the job creation arena, in the minority business community.

These compelling contrasts exhibited by these data lead to the recommendation of the following specific policies and programs which deserve immediate attention by Congress and the administration.

The importance of and the potential benefits to the national interest of a strong and healthy minority business community should be carefully articulated and widely disseminated to Federal Government officials and to the media.

The Federal Government should allocate a greater percentage of its research and development funds to small businesses in general and to minority businesses in particular.

Government policies for stimulation of the economy should include carefully targeted and complementary programs specifically designed to stimulate economically depressed minority communities.

An effective minority business development program is a critical component to any policy designed to stimulate economic activity in minority communities. It can be an important component in a plan to reduce the long-term demand and need for Government social welfare expenditures.

Federal Government policies seriously need to reflect an appreciation of the importance and the interlocking linkages between the recovery of the U.S. economy, revitalization of economically depressed areas of our central cities, high minority unemployment rates, and minority business development programs.

Each minority business is a unit of capacity for minority self-sufficiency. Expanding minority businesses, therefore, expands the minority capacity for self-sufficiency. Failure of the Government to exploit this frontier of development and frontier of underutilized capacity will perpetuate the disproportionate dependence of minority Americans on the larger economy for jobs and income supports.

That ends my testimony, Senator Gorton.

With your permission, I would like to also submit the testimony of three other members of my trade association, the Black Presidents' Roundtable Association.

Senator GORTON [acting chairman]. Without objection, they will be included in the record.

[Material follows:]

TESTIMONY BY

LAWYER A. MARTIN

on behalf of the

BLACK PRESIDENTS' ROUNDTABLE

before the

ADVISORY COMMITTEE ON SMALL
AND MINORITY BUSINESS OWNERSHIP

April 30, 1982

MR. CHAIRMAN, MINORITY BUSINESS AND TRADE ASSOCIATIONS ACROSS THE COUNTRY ARE DEEPLY INTERESTED IN YOUR COMMITTEE'S EFFORTS TO MAKE THE SMALL BUSINESS ADMINISTRATION MORE RESPONSIVE TO THE NEEDS OF THE SMALL BUSINESS AND MINORITY SMALL BUSINESS SECTORS OF OUR ECONOMY.

WE AGREE WITH YOUR OBJECTIVES OF DECREASING THE DEPENDENCE OF MINORITY BUSINESS ON DISPROPORTIONATELY HIGH LEVELS OF FEDERAL CONTRACT SUPPORT AND WE ALSO AGREE WITH YOUR OBJECTIVE OF INCREASING MINORITY BUSINESS DEVELOPMENT AND GROWTH THROUGH PARTNERSHIP WITH THE PRIVATE SECTOR. HOWEVER, WE ARE CERTAIN THAT YOUR OBJECTIVES WILL NOT BE ACHIEVED WITHOUT CONSTRUCTIVELY CRITICAL ASSESSMENT OF THE ROLE OF THE SMALL BUSINESS ADMINISTRATION IN FOSTERING THE DEVELOPMENT AND GROWTH OF MINORITY BUSINESS. WE TRUST THAT THE FOLLOWING AREAS OF CONCERN AND ACCOMPANYING RECOMMENDATIONS WILL BE ACCEPTED IN THAT LIGHT AND WILL FACILITATE YOUR CONSIDERATION OF THE SBA MISSION AS IT UNDERGOES A CHANGE IN LEADERSHIP.

1. SLOWNESS IN CLEARING AGENCY OFFERINGS AND FINANCIAL ASSISTANCE THROUGH THE NATIONAL OFFICE OF SBA. AN HISTORICALLY IMPORTANT INCENTIVE FOR PROCUREMENT OFFICIALS TO UTILIZE THE 8(a) PROGRAM HAS BEEN THE COMPARATIVE QUICKNESS IN OBTAINING CONTRACTORS TO PERFORM ON THE REQUIREMENTS OF THEIR AGENCIES. THIS IS BECAUSE AGENCY OFFERINGS FOR PERFORMANCE BY 8(a) CONCERNS CAN BE FINALIZED MORE QUICKLY THAN FORMALLY ADVERTISED

MR. CHAIRMAN, MY NAME IS LAWYER A. MARTIN, PRESIDENT OF EVALUATION TECHNOLOGIES INCORPORATED, AN ARLINGTON, VIRGINIA-BASED PROFESSIONAL AND TECHNICAL SERVICES FIRM SPECIALIZING IN COMPUTER SOFTWARE SUPPORT SERVICES; FACILITIES MANAGEMENT; TRAINING AND TRAINING MATERIALS DEVELOPMENT; AND INFORMATION SUPPORT SERVICES.

I AM HERE TODAY IN MY CAPACITY AS TREASURER OF THE BLACK PRESIDENTS' ROUNDTABLE (BPR). THE BLACK PRESIDENTS' ROUNDTABLE IS AN ORGANIZATION OF THE PRESIDENTS OF OVER TWO HUNDRED FIRMS IN THE GREATER METROPOLITAN WASHINGTON AREA. OUR COMPANIES ARE DIVERSE IN NATURE WITH CAPABILITIES THAT INCLUDE PROFESSIONAL SERVICES, MANUFACTURING, RETAIL, ARCHITECTURE AND ENGINEERING, FINANCIAL MANAGEMENT, COMMUNICATIONS, RESEARCH AND DEVELOPMENT, CONSTRUCTION, AND PUBLIC AFFAIRS.

THE BLACK PRESIDENTS' ROUNDTABLE WELCOMES THIS OPPORTUNITY TO SHARE WITH THE ADVISORY COMMITTEE ITS VIEWS ON SEVERAL AREAS OF SBA RESPONSIBILITY WHICH IMPACT ITS MINORITY BUSINESS CLIENTELE. THESE VIEWS ARE AMONG A NUMBER OF POLICY RECOMMENDATIONS CONCERNING MINORITY BUSINESS DEVELOPMENT WHICH BPRA HAS COMMUNICATED PREVIOUSLY TO THE EXECUTIVE BRANCH AND AGENCIES OF THE FEDERAL GOVERNMENT.

REQUIREMENTS. DURING THE PAST YEAR, THERE HAS BEEN A MARKED INCREASE IN THE TIME REQUIRED FOR AGNECIES TO CLEAR THEIR OFFERINGS AND FOR 8(a) CONCERNS TO CLEAR REQUESTS FOR FINANCIAL ASSISTANCE THROUGH THE SMALL BUSINESS ADMINISTRATION. THIS HAS RESULTED IN A DIS-INCENTIVE FOR AGENCY UTILIZATION OF 8(a) CONCERNS. THIS HAS ALSO SERIOUSLY DAMAGED THE DEVELOPMENT OF THESE CONCERNS THROUGH LOSS OF CONTRACTS AND IN MANY CASES SUCH DELAY HAS RESULTED IN COSTLY LOSS OF TIME IN THE-ACHIEVEMENT OF AGENCY MISSIONS.

WE ARE AWARE THAT AS RECENTLY AS APRIL 28, 1982, THE NEW SBA DIRECTOR, JAMES C. SANDERS, ANNOUNCED NEW RULES GOVERNING THE 8(a) PROGRAM WHICH, IF EFFECTIVELY IMPLEMENTED BY REGIONAL AND DISTRICT SBA OFFICES, SHOULD REMEDY THIS CONCERN.

2. MORE CREATIVE AND EFFECTIVE UTILIZATION OF THE 7J PROVISIONS. IT IS UNIVERSALLY AGREED THAT TECHNICAL ASSISTANCE IS THE KEY ELEMENT IN THE DEVELOPMENT OF BUSINESS ENTERPRISE. THE 7J PROGRAM OF THE SMALL BUSINESS ADMINISTRATION WAS LEGISLATED TO PROVIDE TECHNICAL ASSISTANCE TO SMALL BUSINESSES AND ASSIST THEM IN THE ACQUISITION OF EQUIPMENT VITAL TO THE PERFORMANCE OF THEIR CONTRACTS WITH AGENCIES OF THE FEDERAL GOVERNMENT. IT IS OUR VIEW THAT THE SBA HAS NOT BEEN CREATIVE ENOUGH WITH ITS UTILIZATION OF THE CONTRACTORS IT ENGAGES TO PROVIDE 7J ASSISTANCE. AN INNOVATION THAT THE SBA SHOULD CONSIDER IS THE UTILIZATION OF 7J CONTRACTORS AS AN EXTENSION OF THE SBA

STAFF. THIS WOULD ENABLE THE SBA TO, IN EFFECT, GET A BIGGER BANG FOR ITS BUCKS AND INCREASE THE QUALITY AND EFFECTIVENESS OF ITS MANAGMENT OF THE 8(a) PORTFOLIO. ADDITIONALLY, WE FEEL THAT THE SBA SHOULD PLACE GREATER EMPHASIS ON THE USE OF ITS CONTRACTORS FOR PROVIDING MARKETING ASSISTANCE WITHIN FEDERAL AGENCIES ON BEHALF OF ITS MINORITY BUSINESS CLIENTELE. FURTHER, THE APPROVAL FOR ACQUISITION OF EQUIPMENT THROUGH THE BUSINESS DEVELOPMENT EXPENSE (BDE) PROGRAM ELEMENT OF 7J HAS, IN THE PAST, OFTEN BEEN DELAYED BY REQUIREMENT FOR CLEARANCE BY THE NATIONAL OFFICE. THE RECENT ACTION OF MR. SANDERS SHOULD REMEDY THIS PROBLEM ALSO.

3. MORE EFFECTIVE ADMINISTRATION AND COORDINATION OF SUB-CONTRACTING REQUIREMENTS. DURING THE PAST YEAR WE HAVE OBSERVED A SIGNIFICANT INCREASE IN THE NUMBER OF FEDERAL PRIME CONTRACTORS THAT HAVE BEEN FOUND TO BE IN SOME MANNER OF NON-COMPLIANCE WITH LEGISLATED REQUIREMENTS FOR SUBMISSION OF PLANS FOR UTILIZATION OF MINORITY SMALL BUSINESS CONTRACTORS. IN VIEW OF THE EMPHASIS OF THE ADMINISTRATION AND THE SBA ON DECREASED DEPENDENCE OF MINORITY BUSINESSES ON FEDERAL CONTRACTS WE FEEL SUCH SUB-CONTRACTING OPPORTUNITY IS CLEARLY CONSISTENT WITH THIS OBJECTIVE. THE OPPORTUNITY FOR A MINORITY CONCERN TO SUB-CONTRACT WITH A PRIME IS SEEN AS A VITAL FIRST STEP IN DECREASING THAT CONCERN'S DEPENDENCE ON FEDERAL REQUIREMENTS AND FACILITATES ITS TRANSITION TO PERFORMANCE WITHIN THE PRIVATE SECTOR. IT HAS ALSO BEEN DEMONSTRATED THAT PRIME CONTRACTORS

EXPERIENCE SAVINGS AS HIGH AS 38 PERCENT THROUGH THE USE OF SMALL BUSINESS SUB-CONTRACTORS. THE REQUIREMENTS OF PUBLIC LAW, THE INCENTIVE OF SAVINGS TO THE GOVERNMENT, AND INCREASED MINORITY BUSINESS PARTNERSHIP WITH THE PRIVATE SECTOR, ARE THREE COMPELLING REASONS FOR MORE EFFECTIVE ADMINISTRATION OF THE SUB-CONTRACTING PROGRAM. AS AN IMPORTANT STEP WE RECOMMEND THAT THE SBA IMPLEMENT PROCEDURES FOR EFFECTIVE COORDINATION BETWEEN ITS MINORITY BUSINESS DEVELOPMENT PROGRAM AND THE SUB-CONTRACTING OFFICE OF THE AGENCY.

4. DEVELOPMENT AND EFFECTIVE UTILIZATION OF MANAGEMENT INFORMATION SYSTEMS. A SERIOUS DETERRENT TO THE ADMINISTRATION AND COST EFFECTIVE MANAGEMENT OF SBA PROGRAMS HAS BEEN THE LACK OF ADEQUATELY STRUCTURED MANAGEMENT INFORMATION SYSTEMS (MIS). THIS IS ESPECIALLY TRUE WITH REGARD TO PROGRAMS DESIGNED TO FOSTER MINORITY BUSINESS DEVELOPMENT. THE LACK OF ADEQUATE MIS CAPABILITY MAKES IT VIRTUALLY IMPOSSIBLE TO DETERMINE WHAT POINT 8(a) CONCERNS HAVE REACHED IN THE IMPLEMENTATION OF THEIR BUSINESS DEVELOPMENT PLANS, WITHOUT THE TIME CONSUMING AND COSTLY MANUAL REVIEW OF AGENCY FILES. THE LACK OF ADEQUATE MIS CAPABILITY ALSO REDUCES THE SBA'S ABILITY TO QUICKLY MATCH OFFERINGS WITH QUALIFIED PORTFOLIO FIRMS, THUS CONTRIBUTING TO THE SLOWNESS IN MEETING THE PROCUREMENT REQUIREMENTS OF FEDERAL AGENCIES. WE ALSO NOTE THAT IMPROVED MIS CAPABILITY WOULD GREATLY INCREASE THE SBA'S EFFECTIVENESS BY

MAINTAINING A DATA BASE ON PRIME CONTRACT AWARDS FOR USE IN QUICKLY MATCHING PRIME CONTRACTORS WITH POTENTIAL MINORITY SUB-CONTRACTORS. WE ARE AWARE THAT THE SBA HAS MADE SOME EFFORTS TO UTILIZE MIS ON A LIMITED BASIS. HOWEVER, SBA'S MIS CAPABILITY MUST BE DEVELOPED TO A MUCH HIGHER LEVEL OF SOPHISTICATION. THE RELATIVELY MINOR COST OF SUCH MIS DEVELOPMENT IS FAR OUTWEIGHED BY THE ULTIMATE SAVINGS IN SBA'S ADMINISTRATIVE COSTS AND INCREASED EFFECTIVENESS IN MANAGEMENT DECISIONS AND SERVICES TO ITS SMALL BUSINESS CLIENTELE.

WE TRUST THAT OUR OBSERVATIONS AND RECOMMENDATIONS WILL BE HELPFUL TO YOUR CONTINUED EFFORTS TO STRENGTHEN THE ROLE OF MINORITY BUSINESS ENTERPRISE IN THE REVITALIZATION OF THE NATION'S ECONOMY.

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TESTIMONY

BY

ROY LITTLEJOHN, PRESIDENT

BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

JUNE 16, 1982

MR. CHAIRMAN, I AM ROY LITTLEJOHN, PRESIDENT OF THE BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION (BrPA). THE BLACK PRESIDENTS' ROUNDTABLE IS AN ORGANIZATION OF THE PRESIDENTS OF OVER TWO HUNDRED FIRMS IN THE GREATER METROPOLITAN WASHINGTON AREA WITH MEMBERS FROM AS FAR AWAY AS CALIFORNIA. OUR COMPANIES ARE DIVERSE IN NATURE WITH CAPABILITIES THAT INCLUDE PROFESSIONAL SERVICES, MANUFACTURING, RETAIL, ARCHITECTURE AND ENGINEERING, FINANCIAL MANAGEMENT, COMMUNICATIONS, RESEARCH AND DEVELOPMENT, CONSTRUCTION AND PUBLIC AFFAIRS.

THE BLACK PRESIDENTS' ROUNDTABLE IS A UNIQUE ORGANIZATION OF CHIEF EXECUTIVE OFFICERS OF BLACK-OWNED AND OPERATED FIRMS. OUR MEMBERS HAVE ADVANCE ACADEMIC BACKGROUNDS AND PROFESSIONAL EXPERIENCE IN ECONOMICS, LAW, FINANCE, PUBLIC ADMINISTRATION, SCIENCE BUSINESS ADMINISTRATION, MARKETING AND PUBLIC POLICY FORMULATION AND IMPLEMENTATION. MANY OF OUR MEMBERS HAVE HELD RESPONSIBLE SENIOR LEVEL MANAGEMENT POSITIONS IN THE PUBLIC AND PRIVATE SECTORS, INCLUDING THE CONGRESS AND AGENCIES OF THE FEDERAL GOVERNMENT. THE ROUNDTABLE'S UNIQUENESS IS FURTHER EXEMPLIFIED BY ITS WORKING COMMITTEES WHICH ARE COMPRISED OF CHIEF EXECUTIVES WHO THEMSELVES IDENTIFY AND WORK ON ISSUES AFFECTING THE MINORITY BUSINESS COMMUNITY. CURRENT COMMITTEES INCLUDE 8(A) AND OTHER MINORITY SUPPORT PROGRAMS, POLITICAL ACTION, ECONOMIC DEVELOPMENT, FINANCE, COMMUNICATIONS AND ORGANIZATION. AS REQUIRED, ISSUE ORIENTED TASK FORCES ARE FORMED TO STUDY AND MAKE RECOMMENDATIONS ON POLICIES

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AND ACTIONS WHICH IMPACT THE INTERESTS OF OUR MEMBERS AND THE MINORITY BUSINESS COMMUNITY AT LARGE.

ROUNDTABLE MEMBERS ARE INVOLVED IN A WIDE RANGE OF CIVIC, POLITICAL AND COMMUNITY PROGRAMS, CONTRIBUTING OUR PERSONAL TIME AND RESOURCES TO THE ECONOMIC GROWTH AND DEVELOPMENT OF OUR COMMUNITIES AND THE NATION. WE, AS INDIVIDUALS, HAVE CHOSEN TO ENTER THE MARKETPLACE WITH FULL RECOGNITION OF THE ATTENDANT RISKS. WE OBVIOUSLY HAVE ALSO TAKEN THIS STEP IN THE HOPE OF REALIZING THE POTENTIAL REWARDS OF ENTREPRENEURSHIP - FOR OURSELVES, OUR FAMILIES, OUR EMPLOYEES, OUR COMMUNITIES AND FOR THE NATION - WHICH RESULT FROM SUCCESSFUL BUSINESS ENTERPRISES.

MR. CHAIRMAN, WE APPRECIATE THE OPPORTUNITY TO SHARE WITH THIS COMMITTEE INFORMATION WHICH WE BELIEVE SERVES TO UNDERSCORE THE CONCERN WITHIN THE MINORITY BUSINESS COMMUNITY THAT THERE IS A CONCERTED EFFORT BY FORCES IN THE PUBLIC AND PRIVATE SECTOR TO TURN BACK THE CLOCK, TO REVERSE, YES - TO DESTROY THE MODEST PROGRESS MADE BY MINORITY BUSINESS DURING THE PAST TEN YEARS. MUCH OF THIS PROGRESS HAS BEEN MADE POSSIBLE BY MINORITY SUPPORT PROGRAMS WITHIN THE FEDERAL ESTABLISHMENT -- MOST PARTICULARLY THE 8(A) PROGRAM OF THE U.S. SMALL BUSINESS ADMINISTRATION.

EFFORTS TO STRENGTHEN THE 8(A) PROGRAM PARTICULARLY WITH YOUR LEADERSHIP AND THAT OF REPRESENTATIVE ADDABBO RESULTED IN THE PASSAGE

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OF THIS LANDMARK LEGISLATION, ITS IMPLEMENTATION HAS BEEN SABATOGED BY THOSE WHO WOULD REJECT THE RIGHT OF MINORITY BUSINESS TO OBTAIN AN EQUITABLE SHARE OF FEDERAL PROCUREMENTS AND SUB-CONTRACTS WITHIN THE PRIVATE SECTOR.

DURING THE PAST EIGHTEEN MONTHS, OPPOSITION TO MINORITY ACQUISITION OF AN EQUITABLE MARKET SHARE HAS RISEN DRAMATICALLY. WITH THE EXCEPTION OF YOUR VOICE AND FEW OTHERS OF YOUR COLLEAGUES IN THE CONGRESS, THE DECLINE OF GOVERNMENT COMMITMENT TO SUPPORT MINORITY BUSINESS DEVELOPMENT HAS PROCEEDED DOWNHILL AT A RAPIDLY INCREASING PACE.

IT CAN BE GENERALLY STATED THAT MINORITY FIRMS ACROSS THIS COUNTRY ARE BEING DESTROYED BY THE DOUBLE-EDGED SWORD OF A DEPRESSED ECONOMY AND INSTITUTIONAL RACISM. WE RECOGNIZE THAT THIS ECONOMIC RECESSION PLAGUES ALL ASPECTS OF AMERICAN LIFE; THAT THE REDUCTION OF ECONOMIC GROWTH CAUSES SERIOUS SOCIAL DISLOCATION AND THREATENS OUR NATIONAL SECURITY.

AND WHILE ALL SMALL BUSINESS IS BEING ADVERSELY AFFECTED, THIS IS EVIDENCED BY THE FACT THAT THERE ARE MORE BANKRUPTCIES NOW THAN IN THE LAST FORTY YEARS. THE ADDITIONAL BURDEN OF INSTITUTIONAL RACISM AND ARBITRARY CONSTRAINTS IN THE MARKETPLACE PRESENTS MINORITY

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BUSINESS WITH COMPOUNDED PROBLEMS AND HEIGHTENS THE PROSPECTS FOR THE DESTRUCTION OF OUR BUSINESSES.

WE DO NOT ARGUE HERE THAT WE ARE FREQUENTLY FACED WITH OVERT ACTS OF DISCRIMINATION BY ANY SINGLE INDIVIDUAL. BUT WE ARE CONSTANTLY FACED WITH THE INTRACTIBLE NATURE OF THE "GOOD OLD BOYS NETWORK", THE INSIDIOUS NATURE OF THE PROCUREMENT PROCESS AND GROWING INSENSITIVITY TO PROBLEMS OF RACE. THE RESULT OF ALL OF THIS IS A LESSENING OF OPPORTUNITY.

WE AT THE ROUNDTABLE HAVE BECOME INCREASINGLY CONCERNED ABOUT THE CUMULATIVE EFFECT OF ALL OF THESE CONDITIONS ON OUR MEMBERSHIP. A RECENT SAMPLING OF ROUNDTABLE MEMBERS CONSIDERED THE IMPACT OF THIS DOUBLE-EDGED SWORD. TWENTY-FOUR OF OUR FIRMS RESPONDED TO THE FOLLOWING QUESTIONS:

1. HOW MANY YEARS HAVE YOU BEEN IN THE 8(A) PROGRAM?
2. WHAT FIXED PROGRAM PARTICIPATION TERM (FPPT) WERE YOU GIVEN?

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3. HOW MANY NEW CONTRACTS HAVE YOU RECEIVED SINCE JANUARY 1981?
4. WHEN DID YOU RECEIVE YOUR LAST CONTRACT?
5. HOW MANY EMPLOYEES HAVE YOU LAID OFF SINCE JANUARY 1981?
6. WHAT IMPACT HAVE CHANGES IN FEDERAL POLICIES AND CONTRACTING PROCEDURES WHICH IMPLEMENT MINORITY SUPPORT PROGRAMS HAD ON YOUR REVENUES?

THE RESULTS OF OUR SAMPLING ARE AS FOLLOWS:

- AVERAGE TIME IN THE 8(A) PROGRAM WAS SEVEN (7) YEARS;
- AVERAGE FPPT RECEIVED WAS THREE (3) YEARS. THIRTY-THREE PERCENT RECEIVED FPPT'S OF TWO (2) YEARS OR LESS;
- AVERAGE NUMBER OF CONTRACTS RECEIVED SINCE JANUARY 1981 WAS FIVE (5);
- FOURTY-TWO (42) PERCENT OF THE FIRMS HAD RECEIVED TWO (2) CONTRACTS OR LESS SINCE JANUARY 1981;
- FOUR (4) FIRMS RECEIVED NO CONTRACTS SINCE JANUARY 1981;
- THE AVERAGE NUMBER OF EMPLOYEES LAID OFF BY THESE SMALL FIRMS SINCE JANUARY 1981 WAS 26;
- TOTAL EMPLOYEES LAID OFF DURING THE SAME PERIOD BY THESE FIRMS WAS 309;
- ONE FIRM HAS BEEN FORCED TO LAY OFF 70 OF ITS 84 EMPLOYEES SINCE JANUARY 1981;
- FOUR (4) FIRMS LOST ONE-THIRD OF THEIR WORK FORCE;
- FOUR (4) FIRMS LOST ONE-HALF OF THEIR WORK FORCE;
- THREE (3) FIRMS LOST TWO-THIRDS OF THEIR WORK FORCE;

- ALMOST FIFTY (50) PERCENT OF THE FIRMS SURVEYED HAVE LOST ONE-THIRD OR MORE OF THEIR WORK FORCE. ONE COMPANY PRESIDENT REPORTED THAT NONE OF HIS LAID OFF EMPLOYEES HAVE FOUND WORK; AND
- OVER THIRTY (30) PERCENT OF THE FIRMS HAVE SUFFERED A FIFTY (50) PERCENT REDUCTION IN DOLLAR VOLUME OF 8(A) CONTRACTS. THREE FIRMS HAVE SUFFERED AN OVER SEVENTY (70) PERCENT REDUCTION IN 8(A) CONTRACT DOLLAR VOLUME.
- THOSE FIRMS THAT HAVE INCREASED THEIR MARKETING EFFORTS WITH THE DEPARTMENT OF DEFENSE HAVE EXPERIENCED THE LEAST NEGATIVE IMPACT.

OUR UNAVOIDABLE ASSUMPTION IS THAT THE FINDINGS OF OUR ROUND-TABLE SAMPLING IS REPRESENTATIVE OF THE IMPACT ON SIMILARLY SITUATED MINORITY FIRMS THROUGHOUT THE UNITED STATES.

THESE GRIM FACTS ARE COMPOUNDED BY RECENT REVELATIONS THAT AT LEAST SIX OF THE KEY EXPERIENCED PERSONNEL IN THE MINORITY BUSINESS DEVELOPMENT OFFICE OF SBA WHO ARE RESPONSIBLE FOR PROCESSING 8(A) PROCUREMENTS HAVE AGREED TO TAKE "EARLY OUTS". THESE MASSIVE SBA STAFF REDUCTIONS OF EXPERIENCED PERSONNEL AND SIMILAR REDUCTIONS OF 8(A) SUPPORT STAFF BY FEDERAL AGENCIES IS FURTHER EVIDENCE OF DECLINING FEDERAL COMMITMENT TO THE DEVELOPMENT OF MINORITY BUSINESS.

FEDERAL MBE SUPPORT PROGRAMS WERE INITIATED TO COUNTER THE DISTORTING EFFECT OF SYSTEMIC DISCRIMINATION ON THE MARKETPLACE. THESE PROGRAMS CAN WORK. THERE IS NO NEED FOR REORGANIZATION OR CONSOLIDATION OF THE PRESENT PROGRAM DELIVERY SYSTEM. WHAT IS NEEDED IS A CLEAR COMMITMENT, IN WORD AND DEED, AT EVERY LEVEL OF THE FEDERAL ESTABLISHMENT TO MAKE THESE PROGRAMS WORK.

IN CLOSING, I WOULD LIKE TO SUBMIT FOR THE RECORD SEVERAL ITEMS: THE FIRST IS A LETTER WITH ATTACHMENTS WHICH IS REPRESENTATIVE OF THE PROBLEMS EXPERIENCED BY MANY ROUNDTABLE COMPANIES IN SECURING SBA ASSISTANCE IN UPDATING THEIR BUSINESS DEVELOPMENT PLANS AND INCREASING THEIR LEVELS OF 8(A) CONTRACT SUPPORT. THE SECOND IS A COPY OF A RECENT TESTIMONY BY A ROUNDTABLE REPRESENTATIVE BEFORE THE PRESIDENT'S ADVISORY COMMITTEE ON SMALL AND MINORITY BUSINESS OWNERSHIP OFFERING SPECIFIC RECOMMENDATIONS FOR IMPROVEMENT IN THE ADMINISTRATION OF THE 8(A) PROGRAM AND SUBCONTRACTING REQUIREMENTS OF P.L. 95-507. THE THIRD ITEM IS A PAPER WRITTEN OVER A YEAR AGO BY A ROUNDTABLE MEMBER WHICH DETAILS THE BENEFITS OF MINORITY BUSINESS ENTERPRISE TO THE U.S. ECONOMY.

MR. CHAIRMAN, THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOUR COMMITTEE. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS WHICH YOU OR YOUR COLLEAGUES MAY HAVE.

BENEFITS OF MINORITY BUSINESS ENTERPRISE TO THE U.S. ECONOMY

PREPARED FOR:

PROGRESS, INC.
AND
THE BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION
OF THE WASHINGTON METROPOLITAN AREA

PREPARED BY:

CENTER FOR SYSTEMS & PROGRAM DEVELOPMENT, INC.
1511 K STREET, N.W., SUITE 740
WASHINGTON, D.C. 20005

BENEFITS OF MINORITY BUSINESS ENTERPRISES TO THE U.S. ECONOMY

Overview

Continued and expanded Federal support for minority business enterprises (MBEs) will result in tangible benefits for the nation as a whole. These benefits are:

- o Employment
- o Federal, State and local tax revenues
- o Sources of investment capital
- o Technological innovation and improvement
- o Support for development and expansion of non-minority business sectors
- o Fostering international trade relations
- o Delivery of social and voluntary services
- o Community support for self-sufficiency and "self-help"
- o Human capital development.

Federal MBE support programs, in particular the 8(a) and P.L. 95-507 programs, were initiated to counter the distorting effect on the marketplace of systemic discrimination. Such discrimination has continued to severely restrict MBE opportunities for growth and maturation. Thus, the need for these programs persists.

Policies for the 8(a) program recently promulgated by the Small Business Administration will limit the development of new MBEs and will have a devastating impact on those 8(a) certified firms that are moving toward maturity.

Support of MBEs by the Reagan administration is consistent with the principles of "supply-side" economics and will return quantifiable benefits to the economy. An unequivocable policy statement from the President supporting existing MBE Federal programs is urgently needed now, however, if these benefits are to be realized.

Minority Entrepreneurs as Employers

A 1979 study of small businesses confirmed the importance of small firms in developing new jobs. Two-thirds of the total employment growth of 5.6 million firms (representing 82 percent of private sector employment) came from small businesses.

Minority businesses represent an important sector of the small business community. Using the most recent census data available, analysts in the Department of Commerce have estimated that minority-owned businesses provide jobs to an estimated 1,081,095 persons.

- This exceeds the total employment of the 19 largest U.S. oil companies;
- it more than doubles the combined employment of the six largest U.S. steel manufacturers;
- it is 80 percent greater than the total employment of the Ford Motor Company, Chrysler Corporation, and American Motors; and
- it exceeds the combined work forces of ITT, IBM, Boeing, and Rockwell International.

A survey conducted in early 1981 among firms in the Washington metropolitan area, among which 8(a) firms are heavily represented, indicates employment among these MBEs greatly exceeds national averages. Estimated employment for the 250 firms represented by the sample shows a total of

14,234 employees. Many of these employees in professional, technical, and managerial categories would not find comparable positions in either the public or non-minority private sector if their jobs were terminated.

Employment among minority-owned enterprises has expanded as rapidly as in the non-minority sector.

- o Between the 1972 and 1977 census, total employment by minority entrepreneurs grew by a compound annual rate of 3.89 percent
- o The comparable growth rate for all private nonagricultural employment was 3.83 percent
- o Between 1977 and 1980 the number of jobs provided by minority-owned firms grew by an estimated 4.20 percent, which equalled the national average.

During the 1980s the importance of minority-owned businesses as employers will likely increase.

- o The Bureau of Labor Statistics (BLS) projects slower employment growth in the goods producing sectors through 1990
- o However, BLS also projects that employment demand in those retail non-goods producing areas in which minority-owned firms are concentrated will increase by as much as 8 percent
- o During the decade of the 1980s, total employment in the goods producing sector is projected to grow by 5 to 7 million persons, compared to about 20 million in the non-goods producing industries.

The contributions of MBEs as employers are made even more clear when the impact of these firms on unemployment is assessed. In 1980, an estimated 3.15 million persons were unemployed each week. If unemployment benefits of $100 per week were paid to these persons, $315 million a week would be required. The collapse of MBEs could represent an additional outlay of $100 million in Federal unemployment benefits, since persons

employed by MBEs would not have easily found jobs in either the public or private sectors in 1980, a recession year. Put another way, the continued survival of MBEs in 1980 could have saved the Federal government $100 million a week or $5.2 billion for the year.

The implications of these data and projections are clear. Minority entrepreneurs will have to employ at expanded levels to offset weak and declining labor demand in the goods producing and public service sectors severely impacted by reductions in Federal spending.

Federal, State and Local Tax Revenues

A study of estimated Federal income tax payments made in 1977 indicated that $2 billion had been recovered by the Federal government and another $500 million had been paid in State, local, import, and excise taxes. (See Table attached.) Federal, State and local taxes paid by Washington metropolitan area firms alone were estimated at over $93 million in 1981, a figure which represents a substantial contribution to the national and area economies.

Sources of Investment Capital

The U.S. Chamber of Commerce estimated in 1975 that every 100 new jobs created generated $481,000 in additional bank deposits. A comparable estimate for 1981 is $736,410. Using these figures, MBE employment in 1980 generated an estimated total bank deposits of nearly $8 billion. If this sum was deposited in checking accounts only, the receiving banks could have leveraged loans in excess of $72 billion. This sum would have been more than adequate to finance the $72 billion in crude oil imported into the United States in 1980.

Technological Innovation and Improvement

The contributions of minority inventors and scientists to the nation's technological superiority over the centuries is little known but documented. Elijah McCoy, Lewis Latimer, and Granville T. Woods for example, patented major improvements in the railroad and electrical industries. Garret A. Morgan invented both the gas mask and the traffic light in the early 20th century.

The role of the small business sector, including minority small business, in technological innovation is more widely acknowledged. The National Science Foundation has found that between 1953 and 1973, small firms produced about four times as many innovations per research and development firms as medium-sized firms, and about 24 times as many as large firms.

Although minority participation in growth industries is still minimal, that which has occurred, according to a study conducted by the National Business League, is the direct result of minority inventiveness and creativity, i.e., the ability to "build a better mousetrap."

Robert C. Forney, Senior Vice President, E.I. De Pont de Nemours and Company, Inc., recently commented on the strong "we try harder" spirit among minority vendors with which his corporation does business. He noted that MBEs often compensate for what they may lack in the way of financial resources "with energetic attacks on bottlenecks."

Support for Development and Expansion of Non-Minority Business Sectors

Minority business enterprises are integrally tied into the national economy. They must of necessity turn to non-minority vendors for many of the goods and services that are required to sustain their operations.

For example, it is estimated that 250 Washington area firms recently sampled spend nearly $25 million per year on space, nearly $4 million on copy/duplicating machine rental, and over $5.25 million on telephone costs.

As important, as MBEs develop and accumulate assets, they have demonstrated an interest and capability to diversify and commit resources to involvement in other business sectors. In the Washington metropolitan area, several cases can be cited of professional service consulting firms which have gained experience and business acumen through participation in the 8(a) program and which have become involved in community development projects as joint venture partners and investors.

Success of the Urban Enterprise Zone concept will depend on the availability of such partners in development, particularly in those cities where minorities predominate and are in political leadership positions.

Fostering International Trade Relationships

The U.S. trade deficit with Nigeria is $13 billion, representing the value of Nigerian oil. Yet at the same time, American skills and technology are being sought by African countries for development. Many of these and other Third World nations have specifically expressed interest in doing business with MBEs.

Support for the increased involvement of MBEs in international trade will not only affect the balance of trade but will aid in establishing cooperative relationships with the suppliers of much need raw materials. However, MBEs must be able to achieve a level of stability and sophistication that will enable them to pursue international markets with success.

Community Support for Self-Sufficiency and Self-Help

Since the emergence of Booker T. Washington on the national scene in the late 19th century, there has been a strong undercurrent of support for economic self-sufficiency and self-help in the black community. There has been a resurgence of that spirit with the development of visible minority business entities in the late 1960's and 1970's. An indication is the growing numbers of minority students in business administration courses and increasing numbers of firms seeking entry to the 8(a) program. However, the decline and/or disappearance of those businesses that have participated in the 8(a) and other minority support programs could result in a deeper sense of dependency and apathy in minority communities than currently exists. For there will be no convincing evidence that self-help in economic enterprise really works.

Delivery of Social and Voluntary Services

Jackie Robinson credited a neighborhood black businessman's interest and intervention for his rescue from the life of delinquency. The story could be repeated countless times. Minority entrepreneurs hire youth, advise students to go into business, support human rights and social service organizations, sponsor issue-oriented conferences, support recreation programs, and contribute to and manage political campaigns.

Cuts in public spending and the shift toward limited government places greater responsibility for social welfare programs on the private sector. If at the same time government decreases support for minority business enterprise, there will be fewer organizations within minority communities to pick up the slack.

Human Capital Development

Milton and Rose Friedman in Free to Choose have aptly described the importance of this benefit.

> In countries like the United States the major productive resource is personal productive capacity -what economists call "human capital". . . . The accumulation of physical capital . . . has played an essential role in economic growth . . . But the accumulation of human capital--in the form of increased knowledge and skills and improved health and longevity--has also played an essential role. . . Both physical and human capital must be cared for and replaced. This is even more difficult and costly for human than for physical capital--a major reason why the return to human capital has risen so much more rapidly than the return to physical capital.

Human capital development is probably the least recognized contribution to the national economy made by minority business enterprises. The benefit is not solely to be understood in terms of numbers, although it is clear that the substantial majority of persons employed by MBEs are minorities and that small businesses are more labor intensive than large corporations.

The critical issue is the quality of the employment experience. Entrepreneurs start their businesses with themselves, and initially hire persons closest to them, i.e., other minorities. These persons are generally not experienced and would not be able to enter large corporations or Governmental agencies in comparable positions. As the company grows -- from the entrepreneural stage to the manager state -- these employees grow with the company , thus gaining developmental experiences they would not be able to access otherwise. As important, they are able to gain such experiences despite the lack of credentials and formal evidence of capability (e.g. test scores) required by major corporations or public sector organizations for employment.

These individuals in turn, having acquired such managerial and program experience, make substantial contributions to their communities -- as church leaders, charity fund-raisers, political representatives and the like. In the case of MBEs, such contributions are overwhelmingly made to the minority communities from which the entrepreneurs come.

The Harmful Impact of SBA's 8(a) Policies

The nine benefits of minority business enterprises listed above represent assets to the national economy of incalculable value.

Policies recently promulgated by newly appointed SBA Administrator Michael Cardenas would have a devastating effect upon the ability of firms currently in the 8(a) program to generate these benefits. Major problems are:

1. SBA would terminate the participation of the largest 8(a) firms.

The 8(a) program was developed in recognition of the role that racial discrimination plays in interfering with market forces. A Republican Administration developed the program to compensate for this bias, which has not lessened to this day.

Firms operating with this "safety net" in place were then able to self-market with some assurance that they would not be denied a reasonable chance for success. Those entering the program in the earliest days have only recently begun to experience break-throughs. Thus, despite large contract dollar volumes, they have only recently experienced noticeable profitability.

Termination is arbitrary and unfair if based on cumulative contract dollar volume, without respect to the firm's comparative position relative to other small businesses, and in its own industry, or without assessing chances for success once the "safety net" has been removed. Imposition of

such a blanket policy without respect to individual circumstances will mean ruin for many. It will also eliminate any prospect of significant participation of such firms in community development ventures, in the international market place, in growth industries or in the private sector mainstream.

2. SBA would limit participation in the 8(a) program to 3-5 years

Such a policy flies in the face of substantial evidence accumulated by SBA itself that most firms do not approach maturity until they have been in existence 15 to 20 years. Most firms only begin to move from the entrepreneural to the managerial stage of growth in 3 to 5 years. Few can show significant profits before the 5-year mark. Certainly the development of human capital required for mainstream participation is not accomplished in this time frame.

As important, Federal agencies will not be willing to entrust major long-term projects to SBA for the 8(a) program if the firms best qualified to implement them are no longer available. This would result in 8(a) subcontracts for minor projects with no development potential. This policy will also cause the demise of some of the program's most respected firms. Private sector opportunities are simply not available for them, particularly in the absence of enforcement of P.L. 95-507. Moreover, there has been no major change in the biases of evaluation panels which operate against minority firms when non-8(a) contracts are at stake. Thus, it is unlikely that these firms can maintain their current contract volume if they are removed from the 8(a) program.

There are alternatives for the management of the 8(a) program that would greatly limit the services SBA would have to provide to firms in the program over 3 years. These must be explored if the program is to remain credible and if the stated benefits to minority communities are to be

realized. Arbitrary time limitations established to make the 8(a) program a "revolving door" program for entreprenurial orientation will not achieve the purpose of strengthening minority communities or the national economy.

3. SBA is penalizing 8(a) firms for its own management failures

In June 1981, 8(a) firms were advised by SBA that pending requirements and/or contracts earmarked for them could not be processed and approved because SBA had not yet met the Congressionally-mandated requirement that SBA negotiate with each firm by June 1 a fixed program participation term. Thus, firms were required to sign a statement which had the potential of depriving them of due process, a statement which is being challenged.

Firms have also been advised that 8(a) requirements and/or contracts cannot be approved because data submitted to one part of SBA (e.g., District Offices) had not been communicated to another part of the organization (e.g., Regional Offices). 8(a) contracts have also been withheld by Federal agencies because of the delays caused by SBA procedures and/or the inability of SBA to process more 8(a) contracts, including contracts which the 8(a) firms have marketed with no SBA assistance.

As a result of these events, 8(a) contracts anticipated to be awarded by the end of the third quarter (June 30, 1981) may be lost to the program forever. In addition, restrictions on the dollar volume of contracts let in the fourth quarter may affect the availability of 8(a) contracts to be let by September 30, 1981.

In short, 8(a) firms will lose business critical to their survival because of the inability of SBA to manage its work in an effective, efficient and timely manner.

The Need for a Statement from the President

The decline and disappearance of minority business enterprises is not in the national interest. However, the actions of SBA coupled with persistent reporting of the negative aspects of the 8(a) and other minority support programs suggest that such an outcome is intended. A statement from the President of the United States is urgently needed to reverse this trend, to continue support for MBE development and maturation, and to realize the substantial benefits that can accrue to the nation if minority entrepreneurs are viewed as important participants in the national economy.

Such a statement should include at a minimum:

1. Support for the continuation and expansion of the 8(a) program as an important vehicle for the involvement of MBEs in Federal contracting activities.
2. Commitment to enforce P.L. 95-507 as a means to foster majority/minority business arrangements within the private sector.
3. Recognition of the benefits to the national economy contributed by MBEs.
4. Insistence that SBA be held accountable for its contribution to the development and success of MBEs participating in its programs and will be expected to revamp its operations to achieve that end.
5. The Administration welcomes the participation of MBEs in the development of the Urban Enterprise Zone program and other initiatives designed to facilitate the nation's economic recovery.

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ESTIMATED TAX PAYMENTS OF ALL MINORITY-OWNED BUSINESS ENTERPRISES

BY INDUSTRY AND TYPE OF TAX

IN 1977 DOLLARS

(Amounts in Thousands of Dollars)

Industry Group	Gross Receipts of All MBEs[1/]	Est. Fed. Income Tax Rate[2/]	Est. Fed. Income Tax Payments[3/]	Est. State Local, Import & Excise Tax Rate[4/]	Est. Payments of State, Local, Import & Excise Taxes[5/]	Est. Total Tax Payments By MBEs[6/]
Agriculture, Forestry & Fisheries	_____	10.66	___	3.04	_____	_____
Mining	_____	33.76	_____	3.55	_____	_____
Construction	2,360,764	3.51	82,863	1.90	44,855	127,718
Manufacturing	1,959,424	5.77	113,059	2.14	41,932	154,991
Transportation and Utilities	1,060,422	4.35	46,128	3.61	38,281	84,409
Wholesale Trade	2,030,700	3.00	60,921	0.90	18,276	79,197
Retail Trade	10,629,378	2.85	302,937	1.96	208,336	511,273
Finance, Insurance and Real Estate	1,333,639	18.77	250,324	2.37	31,607	281,931
Services	6,201,552	16.79	1,041,241	2.21	137,054	1,178,295
Industries not Classified	458,100	21.67	99,270	_____	_____	99,270
TOTAL TAX PAYMENTS (Estimated)			1,996,743		520,341	2,517,084

1/ Bureau of the Census, 1977 Survey of Minority-Owned Business Enterprises

2/ Based upon Table I which is in turn based upon the tax record of sole proprietorships. This form of business organization accounts for about 75 percent of all MBEs.

3/ Gross receipts times estimated Federal income tax rate.

4/ Dun & Bradstreet, The Cost of Doing Business: Proprietorships, 1977. Based on Gross Receipts.

5/ Gross receipts times estimate consolidated tax rate for state, local, import and excise taxes.

6/ Sum of estimate Federal income taxes paid plus estimated state, local, import and excise tax payment.

NOTE: 1977 is the latest year for which complete data is available.

Senator GORTON. Mr. Graves, your statistics show a very significant growth among the firms that are in your BE 100 list. In the period of time that you compiled that list, has there been an increasing or decreasing diversity in the types of businesses on the list?

Mr. GRAVES. Thank you for the question, Senator.

As I indicated in my remarks, there has been an increase in the diversity. In the first 10 years there were clearly firms locked into areas such as auto dealerships, programs supporting a black consumer oriented product, and in the most recent years there has been a development of diversity of businesses entering in the areas having to do with energy related businesses, high technology, and the like. Clearly there has continued to be a diversity of businesses.

Senator GORTON. What is the reason for that in your view?

Mr. GRAVES. I think it is continued sophistication. It is continuing opportunities that have been provided and made available. I think it is the educational development of those of us who are entering into the business of mainstream America.

I think we are moving in the areas where the growth of our country is continuing to come. It is illogical for us to be moving into areas where we are not clearly going to see a development in business. A business is the business of making money. I assume that that is what all of us——

Senator GORTON. Do you think that diversity is going to continue? What would you say are the growth industries?

Mr. GRAVES. I think there are certainly energy related opportunities. Areas of high technology will continue. I think that growth will continue.

What will stymie that growth clearly is the continuing lack of access to capital to have an expansion of businesses. Where I see the next level of businesses moving will be in the opportunity of joint ventures, the opportunity of acquisitions, rather than startup opportunities.

First of all, startup opportunities are difficult at best as it is in terms of what their success level might be. When you have the option clearly with the sophistication in many black businessmen and women we have today around the country, there is no reason why they ought not to be looking at opportunities where major corporations are doing restructuring and diversing themselves of business opportunities that clearly can be sound business opportunities for small business people.

Senator GORTON. Have the 8(a) and other Federal Government programs contributed to this diversity? What role do you see for them immediately?

Mr. GRAVES. Let me say unequivocally, as I did in my earlier remarks, that the role that the Federal Government has played started out to be the court of last resort for minority business people. However, because the private sector clearly has not played the role that clearly they should play, meaning assuring the opportunity for minority business people—I am talking about both black and brown, male and female—to enter into mainstream America, the Federal Government programs in many instances have been the court of first resort, meaning that the opportunities where we have

seen development taking place is because of the Government programs.

Without those Government programs—I do not want to predict the numbers—we will see a diminishing of the companies that presently are the top companies of the BE 100 because of the role that the Government has played in the business development of those companies.

Clearly, I think the Government has to continue to play a role. I want to caution you again that minority business opportunity has never asked for guarantee of results. We have asked for guarantee of opportunity. What has not been there in the past has been just that guarantee of opportunity. No one has said that you have to guarantee me that at the other end of the room I am going to see that we have made it, but we certainly want the door to be open. That door has not been opening. The opening of that door has been provided by programs such as what you are describing.

Senator GORTON. I will start with you on this, Mr. Hall, but both of you can contribute.

Let us get to a more philosophical level in a sense. Do you see the most important or broadest based future for minority-owned small businesses to be in economically depressed areas where crime rates are higher, incomes are lower, or outside of those areas, in the suburbs and in more prosperous areas, or both?

There are quite different problems facing even minority businesses in those two different circumstances, are there not?

Mr. HALL. Yes; the differences in problems minority businesses face versus nonminority I do not think really have that much to do with where they locate.

As it relates to where they are better off locating, I think market forces generally tend to create conditions that cause minority businesses to make location decisions. As minority businesses are getting increasingly more sophisticated, they are going to be making those decisions just as all other small businessmen make those decisions. They are going to go where they can make the most money.

Senator GORTON. So we will have an increased diversity in location as well as an increased diversity in the kinds of businesses that are in the top or successful list?

Mr. HALL. I would predict that. That is why one of the policy recommendations included in my testimony was the suggestion that the Federal Government play a role in providing incentives for minority businesses to locate in low income and minority areas because the trends suggest that no one else is going to locate there. Minorities do not have as much of a resistance to locating in their own neighborhoods as nonminorities would have.

However, if there is no lower risk, if there is not an equivalently low risk in the minority areas as we have in the suburbs, we cannot even expect minority businesses to locate there.

If the Government can provide incentives, policies, or programs that can make it a controlled business environment, such as an industrial park as we have in the remote areas, in low-income areas, then it can be in the interest of minority businesses to locate there. Then we can get the jobs.

Senator GORTON. Thank you.

Senator Nunn?

Senator NUNN. Thank you, Mr. Chairman.

I would like to summarize a brief opening statement that has already been included because I was a few minutes late getting here.

I first want to thank Chairman Weicker for scheduling these hearings. I have been interested for some time in trying to focus on the positive side of minority business development.

Too many times in the last decade we have had most of our focus on the negatives. There are some negatives in the 8(a) program. We all know about those negatives. We are trying to work to improve them.

However, I think it is tragic that there has not been more good news about minority business development and about the Federal programs in particular. That does not mean that we cannot improve them. But, it does mean that we ought to accentuate the positive and let people know the good side of what the Federal programs are doing, and the good side of what minority businesses are doing in our country.

Mr. Graves and Mr. Hall, I appreciate very much your statements. I found particularly enlightening the recitation of the positive developments that you see both as regarding the 8(a) program and the positive moves that have been made in the last decade with minority businesses.

I know in the State of Georgia we have some 10,000 minority businesses that make a very, very substantial contribution to our economy, and I think the potential for growth there is enormous if we can combine that potential with the actual opportunity.

I am delighted that these hearings are being held. I look forward to hearing the other testimony. I have several questions, but I would like to put my whole statement in the record, Mr. Chairman.

Senator GORTON. It will be made a part of the record, and I have a statement to be submitted as well.

[The prepared statements of Senators Nunn and Gorton follow:]

Opening Statement of Senator Nunn

Small Business Committee Hearings

June 23, 1982

Mr. Chairman, first I appreciate your receptiveness to my request to schedule these hearings, and for the cooperation and assistance you and your staff have provided.

During the past decade or so, but in the last four or five years in particular, there has been increased attention focused on the need to foster minority business entrepenuership, and the benefits that such an effort can produce.

Much of that attention has been at the Federal level, but many states, local governments, and the private sector have also undertaken programs that contribute to that effort. Some of these efforts have been highly successful, as our witnesses today will show us. Others have been less successful, and we need to better understand why they have not been as beneficial so that errors will not be repeated.

But unfortunately, most of the attention that has been focused on the Federal efforts to assist in the growth and development of minority businesses have tended to focus on the negatives in those programs, including the potential for "waste, fraud, and abuse" or the differences in opinion on the appropriate day-to-day program implementation.

For that reason, I suggested to Senator Weicker that our committee hold a hearing to show the positive contributions that minority businesses provide to the economy and to society, and to highlight both their role in the Nation's economic recovery, and their special relationships with the Federal government.

As unusual as it may seem, this simple recognition of the contributions that minority businesses make to our society is a very important step at the National level. If we are to allow minority businesses to develop to their maximum, policy-makers at all levels must be aware of the significant role that they play, and what barriers still exist to their further development.

Mr. Chairman, I know what the minority business community contributes to the State of Georgia.

According to the most recent (1977) Commerce Department survey, there are almost 10,000 black-owned businesses alone in the state, with gross receipts approaching $375 million.

These statistics for Georgia are encouraging, and I am sure the results of the current census survey will see them on the rise. But the full extent of this contribution by the minority business community in Georgia, and nationwide, is understated, however, because of the lack of comprehensive,

reliable, or timely data on minority business. This lack of data also hinders the policy-making function for us.

We will have with us today some very successful minority businessmen and women who will be able to share their experiences with this Committee, and the Congress. I will be interested in their perspectives.

But I want to be sure we understand that, while we can assemble an impressive witness list of success stories in the minority business community, there are not yet enough successes to be confident that we have addressed the problems which the minority entrepreneur faces.

Thank you again, Mr. Chairman, for calling these hearings. I look forward to the testimony, and the record that we will develop.

OPENING STATEMENT OF SENATOR SLADE GORTON
Senate Small Business Committee hearing on "Minority Business and Its Contributions to the U.S. Economy"
Wednesday, June 23, 1982

It is a pleasure to participate in today's hearing on the contribution to the economy made by minority small businesses. Over the last two decades, the Federal government has instituted a number of programs designed to aid minority-owned small businesses. The witnesses at today's hearing will tell us how Federal involvement in this area has assisted these businesses, as well as telling us what further involvement should occur. Often Congressional hearings focus on the negative aspects of Federal involvement in a particular field. It will be a welcome change, therefore, to hear some of the positive aspects of Federal involvement in this area.

Senator NUNN. One thing that I would like to ask both Mr. Graves and Mr. Hall: You emphasized the importance of minorities participating in the high technology type industries and the growth industries. Certainly, I share that. I think that is enormously important.

We are having a profound change in our economy and it concerns me that it may not happen unless we have the skilled training available both in general, and in the minority communities in particular.

Mr. Hall, you mentioned that if we are trying to have minority businesses locate in minority areas for job opportunities the necessity for incentives for minority businesses, the key, job opportunities and many other reasons—the key to that is will we have the skills and the skilled training of potential employees in the minority areas that will be needed for minority businesses both to locate there and to participate in the high growth, high technology areas?

In other words, will the skills match the desired business movement toward these growth industries?

Mr. GRAVES. Senator, first let me compliment you on the effort you have made in your own State, and particularly the efforts of Tommy Dortch, your administrative assistant in your home office, and much of what you have done there. I think Georgia and the city of Atlanta in particular has set a goal that many of us would do well to emulate.

I would remind you just in talking about Georgia that 97 percent of the business done at airports in this country is done alone in the city of Atlanta at the airport. That is not an accident. It is an envi-

ronment that was created in Georgia by efforts of persons like yourself, obviously former Mayor Jackson and the present Mayor Young.

Moving from your own State and what I think are some positive things, the whole area of where mainstream America is and where we are as minority entrepreneurs should not be limited to just looking at disadvantaged areas. First of all, I think it is important that indeed we have the opportunity to be wherever the business is.

I have often said that whether or not we're talking about Madison Avenue or 121st Street, we should be prepared to function as first rate entrepreneurs. It is not that in one area I do business one way and in another area I do it in another.

I think that what can make it attractive for us to hire, if you will, the unskilled are the same incentives that are being offered to majority businesses: tax relief, skilled training which is paid for and subsidized by the Government, opportunities for contracts, and opportunities to set up in areas where there are going to be incentives well beyond even that which is stated in present legislation, the kinds of things that Mr. Hall has alluded to.

If you offer those kinds of incentives to any person, irrespective of whether they are black or brown, they are going to make an effort to look to hiring minority persons.

In addition, I think there is something else you obviously have to consider. I think when our white counterparts go home at night they are who they are and they can close their doors and they really don't think about it until the next morning.

Whether or not it is Mr. Hall, a person like myself, or my other fellow black and brown businessmen and women, we are who we are 24 hours a day. The problems we have to deal with, the concerns we have to have for our employees does not allow us to divorce ourselves from those problems. Nor do we want to.

Twenty percent of my time is devoted to being an advocate for minority business and to speaking to those things with which we have to be concerned whether you are talking about economic development programs or you are talking about participating in a myriad of programs such as the National Minority Supplier Development Council or the Interracial Council of Business Opportunity or the NAACP or a trustee of a black college. Those are the concerns and burdens that I think minority business people carry.

Therefore, their interest in insuring that the kind of development that is necessary in the minority communities goes forward and does not end at 5 o'clock in the afternoon. We are speaking to and addressing ourselves to the 1,300,000 black people who are in colleges, encouraging them to move into the areas of the sciences, which are clearly where we are not being trained presently.

You mentioned incentives and where the opportunities are for trained people. Our schools presently are not training the young people for where the jobs will be in the future, the areas of math and science and so forth. All of that becomes a part of it.

Senator NUNN. One of the most encouraging and enlightening, in the sense of reality, of where we are are conversations I have had in recent months. It was with a group of people who were privately, no Federal money involved at all, going to schools, particularly

in our State and in the Southeast, and meeting with teachers and minority and majority students, too. They were encouraging the minority students, in particular, because they felt that this is where a huge potential that is completely unfulfilled is, to continue science and math courses in the seventh, eight, and ninth grades.

Their point was that we have a real tragedy in this country, particularly in the minority areas, where jobs are being created in computers and high technology and engineering. We have thousands of engineering jobs going unfilled in my State right now.

Yet by the time minority students, particularly, get into the 11th and 12th grades and all of a sudden decide that this is where the opportunity is, it is too late. They do not have the math background. They do not have the science background. Even though they may want to go to college in those areas, unless they make an extraordinary effort to catch up, they have already passed by the crucial math courses and science courses in the 8th, 9th, 10th, and 11th grades that are absolutely indispensable.

This group of private business people are doing this. It can only be done on a small scale, I suppose, with a few people, but it seems to me that it is something that is worth at least some national attention.

They are going from one school to another meeting with minorities in particular and with teachers and with counselors, encouraging them to keep their options open by continuing in the sciences and math at least until they make a decision as to what they want to do.

Mr. HALL. Senator Nunn, I can respond to your question in a slightly different way.

One of the more encouraging Government programs that I think is directed to this issue is the technology commercialization program for minority business development in which it attempts to facilitate Government technology transfers to minority businesses.

I think that program is enjoying a considerable degree of success. It takes very strong expertise on their staff to do that. I think they are doing an excellent job.

However, I must say there are two levels of skills that are required. There is the management on the one hand and then there are the employees on the other.

Again, the strongest advantage of the 8(a) program in my view is that it is creating experienced managers in large numbers. No other program around the country is doing that. The private sector is not doing that.

Many of our 8(a) firms are in the high-technology areas. Many of them are serving the Defense Department. Many of them are serving computer technologies. The capability for more of those is clearly there. Whenever that technology gets hooked up with the right management team, you have a fast-growth business.

More stimulation in that area can result in more minority businesses creating more jobs.

As it relates to the skills in the employee area, there is a widely held misconception that most minorities that are unemployed, in fact, are low skilled or essentially unskilled. However, minority unemployment comes in two different sectors. There is the cyclical section and there is the structural section. There are millions of cy-

clicly unemployed minorities who are quite well suited to work in high-technology business.

We could for many thousands and thousands of employees before we use up the number of readily available minoritites.

Senator NUNN. The skills are there now?

Mr. HALL. Yes, I believe so.

Senator NUNN. That is an interesting point because that is contrary to an awful lot of information that I have heard.

Have you got any documentation for that? Have you got any study or any analytical basis for making that point?

If that is accurate—certainly you have studied it in depth—I think that is of enormous significance.

Mr. HALL. I would be happy to provide the committee with information on skill levels of cyclicly unemployed minorities in this country.[1]

Senator NUNN. For instance, we have one employer in the State of Georgia who tells me that they are going to need some 2,000 engineers that cannot be found in our State or in the Southeast United States in the next 5 years. That is just one employer. Of course, this is a large employer.

They also said that right now they have 600 job vacancies for people who are computer capable. These are not college graduates. These are just people who can learn the computer skills, who have the aptitude.

Mr. HALL. With regard to those two areas, there is a shortage throughout the country. That applies to both minorities and nonminorities.

Many of the employees in the high-technology, fast-growth businesses are not your engineers or your computer technologists.

Senator NUNN. Right.

Mr. HALL. That is really the level I am speaking about.

Mr. GRAVES. There is data available also from our board of economists, the Black Enterprise board of economists, where we have a group of eight outstanding economists who clearly would speak to this also.

That is not to say this solves the problems of the engineers that you are speaking of. I think that problem is national.

Senator NUNN. That is not just minority either.

Mr. GRAVES. No; it is what John said. Clearly, there are persons there who can be moved around. If you look at the problem of unemployment in a place like Michigan, granted a worker working on an assembly line may not be the most skilled job, but, still, there are persons who have worked there, who know what it is to have had a job, know what it is to earn a wage. Now, those persons who were making $10 or $12 an hour will literally never be rehired. Either robotics is going to prevent them from being rehired, or just a downturn in the sale of the American automobiles is going to do that.

What is going to happen to those 300,000 people in Detroit and Flint, Mich., and other areas like that where they are not going to be rehired? What are you going to do with those people? Where are you going to move them?

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[1] Information not available at time of going to press.

The job opportunities are certainly not going to be in Detroit. How do they move and where do they go? You are talking about this problem being a universal one, both black and white.

Senator NUNN. Thank you.

Senator GORTON. Thank you very much.

We appreciate the help and the enlightenment that you have provided.

Senator NUNN. May I ask just one other question before we move on?

Senator GORTON. Go ahead.

Senator NUNN. Mr. Hall, on page 12 you say: "Incentives for minority businesses to locate in minority neighborhoods exclusive of urban enterprise zones . . .".

What do you mean "exclusive of urban enterprise zones?" Do you mean something in addition to that concept is being pushed? Is that a negative insinuation toward the urban enterprise zone?

Mr. HALL. No; it is not a negative. Quite frankly I am very hopeful that urban enterprise zones will be passed in a way that they in fact do provide strong incentives for nonminority and minority businesses to locate in low-income areas.

However, I am also aware that there are limitations to that legislation. There will only be 25 cities per year for 3 years. If we take a successful enterprise zone, maybe it creates 2,000 to 3,000 jobs over a 3- to 4-year period.

The impact on the minority unemployment rate is not going to be dented from employment at that level. I think what we need beyond that is incentives for any business willing to pick up the unemployed in areas where there are concentrations of very high unemployment. I am saying beyond what the urban enterprise zone legislation will do, there is a need for much more.

Senator NUNN. Thank you very much.

Senator GORTON. Thank you, Mr. Graves, Mr. Hall.

The next panel consists of five witnesses. We will ask all of them to come up at the same time: Mr. Henry, Mr. Lipscombe, Ms. Paige, Mr. Griffith, and Mr. Mayorga.

Mr. Henry, I understand you have a plane to catch. I will therefore let you go first, and pause after you for any questions that the Senators may have. We will then treat the balance of the group as a panel.

You may proceed.

STATEMENT OF RAGAN A. HENRY, PRESIDENT, BROADCAST ENTERPRISES NATIONAL, INC., PHILADELPHIA, PA.

Mr. HENRY. Thank you.

Mr. Chairman, members of the committee, ladies and gentlemen, I am president and founder of a company called Broadcast Enterprises National, Inc. This company was started in 1974. We own eight radio stations in six cities scattered throughout the Midwest, East, and South. We own a CBS-affiliated television station in Rochester, N.Y.

Senator Nunn might be interested to know that our initial station, which we still own, is WLAK in Atlanta, Ga.

I am also president and founder of the National Leader, which is a weekly newspaper that attempts to link the black community nationwide. It was started early in 1982.

If I may, I would like to make a contrast for the committee between what a company such as ours would have faced in 1974 when we commenced and what we face today.

In 1974, I was able to borrow $4 million from three Philadelphia banks. I raised $500,000 from individual investors. I received $150,000 from an MESBIC in Philadelphia, and we got $350,000 from a private venture capital firm to launch Broadcast Enterprises.

I am convinced that some of these loans were made in some part out of the social concern and a belief in business solutions to minority concerns and problems. At the same time, I point out to you that in a 12-month period in 1974–75, there was a climate where we saw 10 prime rate changes and a total of a 1-point difference between the high and the low in the prime rate. The low was 7. The high was 8.

During the last several years, I really do not think I could have gotten a corporation the size of Broadcast Enterprises started. We have approximately $20 million in revenues.

In 1980, we had 41 changes in the prime rate and a 10-point difference between the high and the low. Financing which worked for me in 1974 at rates that were 8 to 12 percent will not necessarily work in today's climate where many minority business people are paying above the prime rates and rates that are close to 19 or 20 percent.

In addition, the climate is different. Few, if any, bankers and venture capitalists have the social concern for minorities to lend on projected cash flow, which was the basis of my initial loans.

I set forth this contrast to make a point about one Government program, although I have not discussed others which are also important. What I would say to you is that there are 15 of the so-called MESBIC's that participate in the financing of my various companies.

The situation today is that there really is not any money available in the private banking and private venture capital industry for minority entrepreneurs to start today. Entry of new minority entrepreneurs, at least into the communication industry, is being severely restricted as a result.

The few things that are happening in the communications industry for minorities are primarily occurring because of the involvement of the so-called MESBIC industry, which is primarily a Government program, as you all know.

MESBIC's such as Syncom, Fulcrum, and Broadcap have continued to make loans in the communications field when much of private capital has been withdrawn. For instance, in the last 3 months I know that these three MESBIC's alone made 15 commitments to 15 different broadcast transactions.

The MESBIC program is filling a much-needed role for minority businesses in communications. The capabilities of this program need to be protected and expanded, perhaps with an addition of a different basis than the basis on which they operate.

The MESBIC program could be greatly improved if the Government would buy nonvoting stock in the MESBIC's equal to or greater than their present capital with the requirement that MESBIC's be required to invest the proceeds of such stock purchases to secure equity in minority businesses, and not simply as a loan.

This would give minority entrepreneurs a source of needed capital to preserve themselves and to perhaps expand in the harsh economic realities that face all business today.

I do have some additional comments, if the committee please, which I have submitted in writing. I would simply ask permission to submit the written comments and then continue with the oral presentation in the interests of time.

Senator GORTON. Your written statement will be put in the record.

[The prepared statement of Mr. Henry follows:]

STATEMENT BY RAGAN A. HENRY, PRESIDENT OF BROADCAST ENTERPRISES NATIONAL, INC. AND PUBLISHERS ENTERPRISES NATIONAL, INC. BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS JUNE 23, 1982 AT PHILADELPHIA

Mr. Chairman, Members of The Committee, Ladies and Gentlemen:

I am particularly concerned with the plight of minority business in the economic climate that presently besets us. Most of these minority businesses were commenced in the last ten years. They were commenced by entrepreneurs who borrowed very heavily, sometimes borrowing 90% or more of the capital involved in their business at floating interest rates. Not only am I concerned for those minority businesses that now exist, but I am also concerned with the large number of minority people who were taught for years by their Government to believe that the way to be upwardly mobile in our society was to start and operate small businesses. Again, the present economic climate may make it entirely impossible for many of these people to reach that dream which has been and still is held out before them.

Many existing minority businesses were started with what were otherwise marginal loans made by financial institutions partly out of social concern and belief in business solutions. Today, those social concerns are gone.

Many private banking institutions and many private venture capital concerns have no special affinity for minority business, and some of these institutions who find themselves already involved appear to have very little patience with the problems and struggles of these businesses, even though much of the problems and struggles may be put upon these businesses not by any doings of their own, but often simply because of the economic climate in which we exist today.

I am in the broadcast business. Traditionally, our industry has grown at a 12% growth rate for many years. Recently this growth rate has declined. Many properties, including several of mine, were acquired with loans at the prime rate, plus some additional charge. For much of the last two years, we have thus been faced with 19 to 21 percent interest rates. The first year I was in business we had ten prime rate changes and a one point difference between the high and low. In 1980 we had 41 changes and a ten point difference between the high and low. Even if I am successful in operating my properties, and I believe that I am, the mathematics of the situation will not work over the long run. There is no way that highly leveraged companies can continue to pay 19 to 21 percent interest rates in an industry that is growing at less than 12% per year, and my industry's growth is better than most.

I believe that this situation is faced by most minority business people today. There are only two things they can do. One is to fail. If they are fortunace enough, as in our case, to have built up substantial assets, then the alternative is to sell off some of the assets to eliminate debt. Neither alternative is desirable. At a time when a goal is to build up small business, forcing that business to sell off assets actually means smaller and fewer small businesses. Business failure is the ultimate defeat, both for the individual and for the country as a whole. We now live in an economic climate when one can have the most successful business in terms of the old standards and still perish.

In addition to the interest rate climate, minority business could be affected by what may be a developing credit crunch. If the Government operates with huge deficits and has to borrow huge amounts of money, this will leave less money available to lend to large and small private businesses. Since it is largely true that minority businesses are the last to be financed and in many instances are the most highly leveraged in the market place, <u>any credit crunch would mean that they would be left out</u>. Literally, minority businesses are the last to receive credit and, if a shortage of funds to lend develops, they will suffer the most.

Given the above two situations, it is absolutely necessary to consider the importance of Government programs as the only real alternatives that minority businesses may have.

The MESBIC programs have filled a much needed role for minority businesses, and their capabilities need to be expanded but on a different basis than they presently operate. The MESBIC program could be greatly improved if the Government would buy non-voting stock in the MESBICS equal to or greater than their present capital with the requirement that MESBICS be required to invest the proceeds of such stock purchases as pure equity in minority businesses and not as loans.

With the build-up in defense spending and other Governmental spending, the Government may be the best available source of business for many minority entrepreneurs. However, there is reason to think that Government bidding procedures must be reviewed and revised if minority business is to benefit. Many minority businesses complain about their inability to have access to bidding data on a timely basis. All too often, they get the runaround when they seek this data. All too often, the bidding data is received just before the time for filing the bid. The minority businessman is not given time to properly prepare a bid or even submit the same.

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The minority businessman is faced with the same kind of problem because of experience requirements and bonding requirements often inserted in Government work. It is very hard for minority business people to compete for half million dollar contracts or to bond the same if they are required to show proof that they have done half million dollar contracts over a long period of time before or can qualify for bonding for the same only after being in business for five years. As applied to minority businessmen, such requirements are totally disqualifying. They do not prove that the minority businessman is incapable of doing the job; they simply make it more difficult for him to have the chance.

The Small Business Administration does have a guarantee program which, to my knowledge, has guaranteed the bonds for some contractors. A liberal expansion of the bond guarantee program would be most useful to many minority entrepreneurs.

The SBA also operates the 8A program which is a great idea and could be used to greatly assist minority businesses. But, in my view, it is often administered to defeat the announced goals of the program. It often takes a great amount of time and effort to qualify. Then if one qualifies and commences to make money on an 8A job, the minority business person often finds himself or herself being offered smaller contracts on 8A and the major part

of the work they had is put back out to competitive bidding. There is a specific case in Philadelphia of a company which negotiated a two year 8A contract at about $2,000,000. The Small Business Administration and the Government agency involved refused to go forward with the second year. Instead, they offered the company approximately a $200,000 job and put the rest of the work out for bid. The company involved had geared up to do the $2,000,000 job for two years. If it does not have the job for the second year, it will lose more than the new contract is worth and more than likely will have to go out of business. It has proven that it could do the whole job and should be given the opportunity to do so.

The problem that many minority businessmen have had with the Small Business Administration and other governmental agencies in the 8A program is that any kind of success is taken as a sign of graduation from the 8A program. Companies ought to be permitted to stay in 8A until they are reasonably solid and profitable. To do otherwise defeats the very goal of the program.

In summary, these are very hard times for small business and small minority business in particular. There is a real need for more, not less, support from the Small Business Administration, the MESBICS and other Government programs intended to support minority business.

This is particularly so when business has for so long been held out to the minority community as a viable route to a place in the economic scheme of things. Many minority business people have started down that route. Others are poised to take their places. Unless support for existing Government programs is continued, those already in business face likely defeat and those who are poised won't have a chance to start at all. SBA, MESBICS and the Governmental programs won't cure all difficulties faced by minority business in our present economic climate, but their continuance and expansion is the best hope we have.

I appreciate your attention and the opportunity to appear before the Committee.

Respectfully submitted,

Ragan A. Henry

Senator GORTON. Have you finished your presentation?

Mr. HENRY. Yes, I have finished.

Senator GORTON. I think you have touched the paradox of the problem. I was particularly interested in your comment, and I would like you to amplify on it, about what we have now with these tremendously high interest rates and a great deal of pressure on capital markets by the huge deficits that this budget of the United States creates today.

Is it the thrust of what you say that probably minority businesses will suffer disproportionately? Are they more likely than not to be the businesses which are at the end of the line and on which the door is closed when credit is tight?

Mr. HENRY. Yes. I outlined how I got started in the financing. If you notice, only $500,000 of some $5 million involved in my initial financing was generated from private equity sources. The balance of it was really borrowed.

You find most minorities today in what I would describe as a very highly leveraged condition in a high interest rate climate, which is not necessarily a comfortable spot to be in.

In addition, because there are not accumulations of wealth in the black community, to start a new business minority businessmen must rely much more so than any other group of businessmen on borrowed funds.

The pressures created in this way, if I may refer to my own industry, the communications industry, is an industry which over the years has roughly grown at a 12-percent rate.

At a 12-percent rate of growth, when interest rates were 7 or 8 percent, it was entirely possible to borrow 90 to 95 percent of the money that you needed to acquire to start a business. Because of the cash flow and the growth of the industry was always there over a 7- to 10-year period, you could literally pay for that business out of income generated from the business.

If you increase the rates to a certain degree, and certainly when you get into the area where the rates are 17 to 23 percent where they have been in the last several years, there is no way that anybody can make the math work. I do not care how good you are. You can simply not in an industry growing 12 percent borrow 90 or 95 percent and expect to pay the 17- to 20-percent rates and survive.

The net effect that this has in the capital markets is loans that used to look attractive to banks are no longer attractive. I am not criticizing them for not making them because if I were the banker I would probably not make them either. Private venture capital simply cannot obtain the 30 percent per year minimum returns that they expect.

The situation you have is that both bank capital and venture capital in a private sense simply are not available to minority business people today.

The only things that I really see starting and able to go forward are really things that are backed by the MESBIC's and other Government programs. Therefore I emphasize the necessity to at least maintain those programs and hopefully expand them.

Senator GORTON. Thank you.

Senator Nunn?

Senator NUNN. Thank you very much, Mr. Henry.

I am delighted to know about WAOK and that is where your successful enterprise started. We take a great deal of pride in that station.

I have two questions. You say on page 5: "A liberal expansion of the bond guarantee program would be most useful to many minority entrepreneurs."

Is there a specific kind of proposal that you could give us on that? Perhaps you could furnish something for the record.

We have gone into that bonding program in depth in past years. We have tried to make the program much more viable and successful than it has been. I recognize that is one of the key elements for minority small business in getting started as well as other small businesses.

Mr. HENRY. In many Government procurements, as well as private construction contracts, if you cannot post rather large bonds, you simply cannot play in the ball game. Most minority businesses do not have the net worth to have the bonding company thrust forward and do that bonding.

One solution has been that the SBA has had a program that guaranteed the bonds. Frankly, I believe that program is limited to approximately one-half million dollars. I am not sure. It is either $350,000 or one-half million dollars.

Senator NUNN. I believe it is one-half million.

Mr. HENRY. Is it one-half million?

There are contracts where the bonding is just larger than that. It is not necessarily easy to get through the administrative structure in time to produce the bond. The particular bid, as I understand it, may be issued, procurements to be made in 30 days or so, and simply the time, if you have to start with that 30-day period of processing the bond in order to bid on the job, you simply cannot do it.

Senator NUNN. Is there a way SBA could have a preclearance authority on bonds up to a certain amount so that companies are assured in advance based on their performance capabilities that they would be able to get a bond of x amount? Then they would be in a position to move rather rapidly.

Mr. HENRY. That is exactly what I would suggest. The only way to effectively play in the game is to preclear people for whom you are going to supply bonds. Then have a second review. Any job they want to bid on, they go ahead and bid, and have a very short time within which you could issue a bond to someone precleared.

Senator NUNN. I am going to ask Mr. Wright—I see him back there—to make a note on that. Maybe you could give us your views on it when you testify.

One other question I have, Mr. Chairman, for Mr. Henry. This is one of the most difficult areas in the whole 8(a) area.

You say companies ought to be permitted to stay in 8(a) until they are reasonably solid and profitable. To do otherwise defeats the very goal of the program.

I guess certainly we would agree with that statement. However, it is a matter of judgment how long that period is and what is reasonably successful and profitable. We also have to look at the side of it that says that for every person who does not graduate at the time they are able to, somebody else does not get their foot on the bottom rung of the economic ladder under 8(a).

Do you have any specific suggestions that would relate to the changes in the law on that, or is it primarily the administration and the regulations of that graduation?

Mr. HENRY. I can only speak from my own experience, which may not be very scientific. I recognize the difficulty that you refer to in dealing with this kind of problem.

At least the 8(a) jobs and contractors that I am familiar with have suffered a particular thing. There seems to be a reluctance, not a reluctance but an aversion in the SBA to helping any minority businessman "be rich." There is a millionaire syndrome there and so on. Many people who may be doing 18 or 19 million dollars' worth of business are not necessarily making $1 million.

What I have seen occur is a company gets an 8(a) job. They gear up for that 8(a) job. They really lose money on the job for a couple of years. Then in the third year they know how to do it, frankly, and they start to make a considerable profit on it. Along comes the SBA or the agency and says, we are going to put this out to general bid. It is not going to be 8(a) any more. They kick the businessman out of the program, and they usually cite the fact that he makes some money. However, if you look at the whole job, he probably made money 1 year and not the 3 years. The cases I know of, if you

averaged it out, they were about even on the whole thing and really did not make any money.

I think it is a difference of emphasis. I think when many minorities talk about minority business they are talking about success. They have more concern that we have a healthy successful minority business community than that we have large numbers of unsuccessful minority businesses.

Frankly, my own judgment of the program today is that it is administered to give a larger number of minority businessmen an opportunity and it really is not geared though to producing successes. If you look at many of the 8(a) contractors, they have been in 8(a), they are out of 8(a), and in many cases they are no better off than when they started.

Senator NUNN. That is exactly the thrust of the legislative effort we made in 1978 and 1979 to try, to emphasize the strong legislative intent that the purpose of the 8(a) program was not quantity, but developing successful businesses that could indeed compete when they got off the program.

We also emphasized that the purpose was to develop a minority firm that could indeed compete in the free enterprise system without 8(a). The question is a judgment call, I guess.

I would certainly agree with your remark that they ought to look at the entire 8(a) experience and not simply the last year as to when that firm becomes viable.

Perhaps Mr. Wright could also address that when he testifies here. We will get up a good number of questions for him.

Mr. HENRY. If I could make one other comment. Very often in terms of the Government work you will take a minority firm that is perhaps doing 1 million dollars' worth of business. Suddenly he gets a $2 million 8(a) contract. It is now a $3 million business.

You have done something to change that business very drastically. He has that contract for a couple of years. His whole business gets geared up to a $3 million level and not necessarily operating at a $1 million level.

When all of a sudden you cut him out of that program and he has to return to $1 million or $1.5 million level, he has a lot of problems. I do not think enough attention has been paid to when you do graduate someone from the program not doing that with a drastic cut because they lost one big contract, but how do you phase that down?

For instance, I have seen examples where in one swoop a company such as I described lost a $2 million contract. It had all kinds of problems when that could have been done by lowering the amount of 8(a) business they had gradually over a number of years.

I do not think enough concern is shown for the problems that can be created by the graduation process.

Senator NUNN. Thank you very much.

Senator GORTON. Thank you, Mr. Henry. We are very happy to have had you here.

Mr. HENRY. Will the committee excuse me, please?

Senator GORTON. It will.

The witnesses are going to have to excuse the two Senators now. We have been called for a vote on the floor of the Senate. We will begin again as soon as we return from the floor vote.

[Recess taken.]

Senator GORTON. We will get started again.

Ms. Paige, we will begin this part of it with you. We now will go through all three of you with your individual testimony and then ask you questions collectively.

Ms. Paige?

STATEMENT OF MARY ALICIA ROACH PAIGE, PRESIDENT, COMPUTER ENGINEERING ASSOCIATES, INC., AVON, MASS.

Ms. PAIGE. Members of the committee, my name is Mary Alicia Roach Paige. I am president of Computer Engineering Associates, located in Avon, Mass. It is a pleasure to appear before this committee.

CEA is a small disadvantaged firm which is currently certified through the Small Business Administration under the 8(a) program. We provide computer services such as software development, onsite support, systems and maintenance support, systems planning and integration, conduct various research activities for both Government, commercial, and industrial organizations.

At this point let me give you some background information. I decided to go into the information systems field by starting a business based upon library management information systems. I started CEA after having a career in library service both with the Federal Government and town government totaling 24 years. CEA was incorporated approximately 3½ years ago.

My two partners joined me at the opening of CEA as employees. They had agreed to work under contract for minimal or no salary for 1½ years. It was agreed that if we were still in business at that time I would sell them each 20 percent of my stock.

Eighteen months later I was certainly glad for that agreement. Although we had won some small contracts, my start-up money was almost depleted, and the capital investment that my two employees injected into the corporation for their stock purchases certainly helped the situation.

We sustained ourselves by winning small and medium sized contracts competitively through the Commerce Business Daily. In many cases, when our proposals were turned down, we were given reasons such as: "You are too small and new. You do not have the experience. You do not have the cashflow we consider necessary to carry the job to its conclusion."

As a result of that attitude, I began researching organizations to see which might help a small business best. I decided on the Small Business Administration because its mandates fitted my needs.

I needed a loan, so I applied to many banks. Banks simply would not even discuss ways I could get a loan with them. It was frustrating. They said I had a poor cashflow and needed money too badly. I only went to them for a loan because I needed money.

I went to SBA to apply for a working capital loan. At this initial meeting I was told about the 8(a) program. Let me state that at that time I knew nothing about this program. However, I decided to apply for the 8(a) assistance to strengthen my company.

Although I appreciate what SBA has done for me, I must say this agency has imposed several obstacles. When I carried my initial pa-

perwork into the SBA Region I office, the gentleman I dealt with looked at me with a smirk on his face and asked, "Ms. Paige, why would you want to open a consulting firm? Why did you not open something like a hat shop?"

Again I was facing the old stereotyped attitude. For over 2 years I fought tooth and nail to become certified. Finally, December 31, 1980, I received my certification.

In all cases, SBA kept turning me down for taking and implementing the advice they gave me. After the first turndown, I called SBA for advice, followed it to the letter, and was turned down only because I did exactly as I was told.

When I went in one day for a consultation with one of their financial advisors, his first words to me were, "Why, Ms. Paige, you are still in business?"

That is a sample of the most prevalent problem with programs for small business, especially minority small business. The people who are responsible for the administration of the policies at all levels are too often unsympathetic and could care less about the problems and situations we find ourselves in.

I am sure that if the SBA would evaluate its staff of 8(a) employees to insure that those persons assigned at all levels are experienced and sensitive to the business developments and practices that are essential for effective participation by companies in their 8(a) portfolio, the program would be self-perpetuating with no need for any changes.

The SBA also has a great need for improvement in its management information system, especially in its data base for small business and 8(a) assistance. At the present time they cannot effectively track or assist companies on the 8(a) program simply because of the PASS database ineffectiveness.

I must admit that the 8(a) contracts that I currently enjoy and have completed would not have been open to me without this certification. I have been very conscientious about the contracts I have received, and because of that fact I have been successful in changing the minds of a few contracting offices about the abilities of 8(a) firms.

Finally, after 2½ years of operation and 7 months on the 8(a) program, I was able to finalize a guaranteed loan through SBA with Commercial Credit Financial Corp. Although SBA had originally turned because they said it seemed in their estimation my cash flow did not seem substantial enough to make payback a likelihood, Commercial Credit could see the worth of my business plan and projections and decided to grant the loan with an SBA guarantee.

I have not missed a payment since the loan was finalized. By the time I did receive the loan I was deeply in debt. I had stayed in business only because of our competitively won contracts. Each contract was used to sustain the staff members who executed the contract.

I, personally, feel there should be a definitized Government policy in the form of more subcontracting opportunities from prime contractors for minority contractors. There is evidence that these primes are making far too little effort to contract with minorities.

There should also be a much larger percentage of Federal procurements made to minority contractors. Those who would reduce many firms off the program to make room for others are creating havoc in the program because many of those companies are not yet viable. The lion's share of all upcoming procurements should in all fairness go to those companies that are certified and are struggling, as I have had to do. Make the program larger so all can get fair and equitable treatment.

There is no need for fancy reorganization or consolidations. Just make the programs that are now in place work as they were originally intended so they can be fully effective.

My complaint as a black woman is that people refuse to believe I am serious. My color gets in their way. I have been marketing my capabilities now in the private sector to insure that in the future I will have the means of added growth, thus removing myself from the program, as this is the program's intent.

I have had a hard time as a socially and economically disadvantaged person establishing myself despite the prejudice of many people who are supposed to be in a position to help me attain the American dream.

Without sufficient active Government support at all levels, the situations that now exist for us all will continue and grow stronger. I, like all other socially and economically disadvantaged persons, have a great need for Government support in both capital and credit.

By persevering, CEA has grown from a company of 4 people to one that now employs 23 across the Nation. Our sales have gone from zero dollars at startup in 1979 to over $500,000 last year with still more growth expected this year.

I am now moving into a position to be able to help other minority companies in their fight for certification, loans, or just plain honesty from agencies like SBA. We, like all other Americans, have rights, and among these is our right to be respected and considered as an integral part of the economy by those we helped put in office.

Thank you.

[The prepared statement of Ms. Paige follows:]

TESTIMONY

OF

MARY ALICIA ROACH PAIGE

PRESIDENT

COMPUTER ENGINEERING ASSOCIATES, INC.

AVON, MASSACHUSETTS

BEFORE THE

U.S. SENATE SMALL BUSINESS COMMITTEE

JUNE 23, 1982

Name: Mary Alicia Roach Paige

Title and Firm: President, Computer Engineering Associates, Inc.

Business Address: 65 East Main Street, Avon, MA 02322

Subcommittee of Senate Small Business: Minority Businesses

Date of Appearance: June 23, 1982

Mr. Chairman my name is Mary Alicia Roach Paige, President of Computer Engineering Associates, Inc. at 65 East Main Street, Avon, MA. It is a pleasure to appear before you and this committee.

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At this point, let me give you some background information. I decided to go into the information systems field, by starting a business based upon library management information systems. I started CEA, after having a career in library service, both with the federal government and town government, totalling 24 years. CEA was incorporated approximately 3½ years ago.

My two partners joined me at the opening of CEA as employees. They had agreed to work under contract for minimal or no salary for 1½ years. It was agreed that if we were still in business at that time, I would sell them each 20% my stock. Eighteen months later, I was certainly glad for that agreement. Although we had won some small contracts, my start-up money was almost depleted, and the capital investment that my two employees injected into the corporation for their stock purchase certainly helped the situation.

We sustained ourselves by winning small and medium sized contracts competitively through the Commerce Business Daily. In many cases when our proposals were turned down, we were given reasons such as, "You're too small and new", "You don't have the experience" or "You do not have the cash flow we consider necessary to carry the job to its conclusion". As a result of that kind of attitude, I began researching organizations to see which might help a small business best. I decided on the Small Business Administration, because it mandates fitted my needs.

I needed a loan, so I applied to many banks. Banks simply would not even discuss ways I could get a loan with them. It was frustrating. They said I had a poor cash flow and needed money too badly. I went to them for a loan because I needed money. I went to SBA to apply for a working capital loan. At this meeting I was told about the 8(a) program. Let me state, at that time I knew nothing about this program. But I decided to apply for 8(a) assistance to strengthen my company. Although I appreciate

SBA's asistance, I must say that this agency, had imposed several obstacles. When I carried my initial paperwork into the SBA Region I's office, the gentleman I dealt with looked at me with a smirk on his face and asked, "Ms. Paige, why would you want to open a consulting firm, why didn't you open something like a hat shop". Again I was facing the old stereotyped attitude.

For over two years I fought tooth and nail to become certified. Finally December 31, 1980, I received my certification. In all cases SBA kept turning me down for taking and implementing the advice they gave me. After the first turn-down I called SBA for advice, followed it to the letter and was turned down only because I did exactly as I was told. When I went in one day for a consultation with one of their financial advisors, his first words to me were, "Why Mrs. Paige, your'e still in business"? That is a sample of the most prevalent problem with programs for small business especially minority small business. The people who are responsible for the administration of the policies at all levels, are too often unsympathetic and could care less about the problems and the situations that we find ourselves in.

I am sure that if the SBA administration would evaluate its staff of 8(a) employees to insure that those persons assigned, at all levels, are experienced and sensitive to the business developments and practices that are essential for effective participation by companies in their 8(a) portfolio; the program would be self perpetuating with no need for any changes.

The SBA also has a great need for improvement in its management information system, especially in its database for Small Business and 8(a) assistance. At the present time, they cannot effectively track or assist companies on the 8(a) program simply because of the (PASS) database ineffectiveness.

I must admit that the 8(a) contracts that I currently enjoy and have completed would not have been open to me without this certification. I have been very conscientious about the contracts I have received, and because of that fact, I have been successful in changing the mind of a few contracting offices about the abilities of 8(a) firms.

Finally, after 2½ years of operation and 7 months on the 8(a) program, I was able to finalize a guaranteed loan through SBA with Commercial Credit Financial Corporation. Although SBA had originally turned me down because they said it seemed in their estimation, my cash flow did not seem substantial enough to make payback a likelihood; Commercial Credit could see the worth of our business plan and projections and decided to grant the loan with an SBA guarantee. I have not missed a payment since the loan was finalized. By the time I did receive the loan, I was deeply in debt. I had stayed in business only because of our competitively won contracts. Each contract was used to sustain the staff members who executed the contract.

I personally feel there should be a definitized government policy in the form of more subcontracting opportunities from prime contractors for minority contractors. There is evidence that these primes are making far too little effort to contract with minorities. There should also be a much larger percentage of Federal Procurements made to minority

contractors. Those who would reduce many firms off of the program to make room for others are creating havoc in the program, because many of those companies are not yet viable. The lion's share of all upcoming procurements should in all fairness go to those companies that are certified and are struggling as I have had to do. Make it larger so all can get fair and equitable treatment.

There is no need for any fancy reorganization or consolidations. Just make the programs that are now in place work as they were originally intended, so they can be fully effective.

My complaint as a black woman, is that people refuse to believe I am serious. My color gets in their way. I have been marketing my capabilities in the private sector, to insure that in the future I will have the means of added growth, thus removing myself from the program, as this is the programs intent.

I have had a hard time, as a socially an economically disadvantaged person, establishing myself in spite of the prejudices of many persons who are suppose to be in a position to help me attain the American dream. Without sufficient active government support at all levels the situations that now exist for us all will continue and grow stronger. I like all other socially and economically disadvantaged persons, have a great need for government support in both capital and credit.

By persevering, CEA has grown from a company of four people to one that now employs 23 across the nation. Our sales have gone from 0 dollars at start-up in 1979 to over $500,000 last year and still more growth expected this year. I am now moving into a position to be able to help other minority companies in their fight for certification, loans or just plain honesty from agencies like SBA. We, like all other Americans, have rights, and among these is our right to be respected and considered as an integral part of the economy by those we helped put in office.

Senator GORTON. Thank you, Ms. Paige.
Mr. Griffith?

STATEMENT OF MARCUS M. GRIFFITH, PRESIDENT, THE HAIRLOX CO., INC., WASHINGTON, D.C.

Mr. GRIFFITH. Mr. Chairman and members of the committee, I am Marcus M. Griffith, president of the Hairlox Co., Inc., of Washington, D.C. I am here today representing the American Health & Beauty Aids Institute of which my company is a member.

I have a brief written statement to submit for the record, but my primary intent is to share with you some of the positive results of the Federal Government's role in advancing the cause of minority business development.

First, I would like to make a few comments about the institute. The American Health & Beauty Aids Institute is a recently established association of minority firms that manufacture and market health and beauty aid products.

Among the institute's four purposes as set forth in its charter is to fairly represent the interests of its members to governmental agencies at the local, State, and Federal levels, and to provide information and educational resources that will contribute to business development and economic progress within the minority community.

I have attached some additional material for your information concerning the institute. What you will not find in that information, Mr. Chairman, is the full history and true profile of the chief executive officers of its member companies.

I think I speak for all the CEO's of our institute when I say that we are a special breed of minority businessmen who consider ourselves to be rugged individualists and totally self-reliant, if not self-made, within the limits of such a term.

We operate our companies almost exclusively in the private sector and in the best traditions of the Puritan work ethic and the free enterprise system.

We represent the oldest industry in which blacks have been traditionally successful, beginning from the year 1919 to the present. Most of us have built our companies with minimal financial assistance from other sources. Yet today our member companies employ some 1,500 persons with an annual payroll of approximately $25 million and gross sales of approximately $200 million.

I have emphasized these points because I want it to be known from the outset that the institute does not subscribe to the view that minorities can only succeed in business with massive governmental assistance. There is, in my opinion, a time and place for the right kind of Federal assistance, but that assistance does not necessarily have to be extremely costly as I will indicate.

The last objective of the institute as mentioned earlier, that of advancing minority business development, is, of course, the primary topic of today's hearings. We welcome the opportunity to provide our thoughts on this issue. Certainly, there are only a few topics that are more important to our member companies and to the black community as a whole.

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I am pleased to report to this committee that some of our member companies that received Federal assistance at the early stages of their development are not now only successful but are among the top 100 black firms in the country. One of these companies, M. & M. Products Co. of Atlanta, Ga., received the Small Business of the Year Award from the Small Business Administration. This company, whose president was recently honored at the White House for its achievements, now employs more than 400 persons and contributes significantly to the welfare of the Atlanta, Ga., community in many other respects.

Another outstanding success story among the institute's members is that of the Soft Sheen Products Co. of Chicago, Ill. This company received three separate loan guarantees from the Small Business Administration, two of these during the early stages of its development appproximately 10 years ago.

The first two guarantees were relatively small, $40,000 and $60,000 respectively, but they enabled the company to develop to the point at which it could have qualified for a third and more substantial guarantee of $260,000, with which it was able to accomplish some major improvements in its production and marketing operations.

Without these loan guarantees, the Soft Sheen Co. may never have realized its present growth. The result has been a company that has grown from 5 employees, basically the family, to approximately 400 today.

This company has been cited in the Congressional Record for its various contributions to the black community, and reported in the Chicago daily newspapers and national magazines for its high sense of civic responsibility, particularly when it placed on its payroll a local school teacher who had been laid off by the Chicago school system because of cutbacks in its funding. This school teacher was able to continue teaching in the public school system because of Soft Sheen's "Adopt-a-School Program."

Yet another success story among our members is that of the Bronner Brothers Co. of Atlanta, Ga. This company received a $100,000 loan guarantee some years ago that provided the base for its expansion to a three-store distributing company and its subsequent entry into the national manufacturing arena, providing employment for some 124 persons.

The company annually sponsors the largest black trade show in the country, bringing together thousands of professional cosmetologists, distributors, and manufacturers of all races who cater to the needs of black consumers. Because of these trade shows and its many civic contributions, the name Bronner Brothers has become a household world in the black beauty industry.

Mr. Chairman, these are real life examples of minority firms that have received Federal backing at a crucial phase in the company's development which enabled them to attain their status in today's marketplace. There are many other success stories throughout the minority business community, but they are too numerous to relate at this hearing.

I should emphasize at this point, Mr. Chairman, that the greatest problem of minority business development is the problem of entry. It is true that the embryonic stages are by far the most crucial in

the life cycle of all businesses, but traditionally it has been and remains a considerably more difficult stage for minority small businesses.

The minority entrepreneur has to overcome both the customary economic barriers to entry and growth as well as the artificial barriers based on age-old prejudices and stereotypes. Without various forms of Federal assistance, this dual burden becomes too great in most instances for the average minority entrepreneur to bear.

I should underscore that this assistance received by the three member companies cited in this summary was not in the form of giveaways or did not come from the Federal Treasury but were only guarantees of amounts that the particular lending institutions which made these loans were reluctant to or might not have done so without the Government's backing.

My own experience with these programs has been in the area of marketing. In 1975, with the help of the Small Business Administration, the Office of Minority Business Enterprise, and four other federally assisted organizations dedicated to the development of minority business, my company was able to penetrate the private sector of the marketplace in a manner that might not have been possible without such help.

As a result, my company was able to develop the cashflow necessary to provide for its growth. My company now employs 32 persons here in Washington, D.C., contributing more than $200,000 annually to the city's payrolls.

It is my opinion that Federal assistance in the areas of marketing and management training is equally important as loans and loan guarantees because assistance in these critical areas enables the minority entrepreneur to fish by himself for all time and not merely gives him the proverbial fish for 1 day.

This opinion is based on my 34 years of self-employment and entrepreneurship. More specifically, I have been involved in the minority business community as an employer since the 1950's when my company employed 152 persons with an annual payroll of $250,000.

This was a very significant achievement for those times. Throughout the ensuing years I have witnessed the negative impact on the minority business person of the unavailability, untimeliness, and inadequacy of Government assistance.

In spite of the success stories I have recited, and there are many, many others out there, most of what we hear and see is the Government cutting back on this form of support to the minority business community. We do not understand this action, Mr. Chairman. It makes no sense economically, socially, or even politically.

Throughout this hearing you will hear evidence of successful minority business development due totally or in large part to a constructive and positive Government policy. Retreating at any level on this commitment would be disastrous and only add to the economic disenfranchisement of the minority business community, stifling the economic growth and advancement of black America and other minority interests.

In closing, although we acknowledge that many positive contributions have been made, we feel that much, much more remains to be done by both the Federal and State Governments in order to ad-

vance minority business development. The programs we suggest include manpower and job training, continued loan and loan guarantee assistance, help for expanding minority participation in export trade, giving minorities better access to the Federal procurement market, and increased technical assistance services.

Many of these program services can be delivered at minimal cost to the Federal Government, and the dollar return will more than justify the initial costs.

Mr. Chairman, the black business community does not want giveaway assistance. We expect to pay our way, but minority firms undoubtedly need help to overcome the economic and artificial barriers that prevent us from taking our rightful place in the Nation's economic mainstream.

Whatever this committee can do to help transmit this message to decisionmakers at all levels of Government will be greatly appreciated.

Thank you.

[The prepared statement of Mr. Griffith follows:]

STATEMENT BY

THE AMERICAN HEALTH AND BEAUTY AIDS INSTITUTE

BEFORE THE

SENATE SMALL BUSINESS COMMITTEE

JUNE 23, 1982

Presented by Marcus M. Griffith
President
The Hairlox Company Inc.

Mr. Chairman and members of the Committee, I am Marcus M. Griffith, President of The Hairlox Company, Inc., of Washington, D.C. I am here today representing The American Health and Beauty Aids Institute of which my company is a member. I have a brief written statement to submit for the record, but my primary intent is to share with you some of the positive results of the Federal Government's role in advancing the cause of minority business development.

First, I would like to make a few comments about the Institute. The American Health and Beauty Aids Institute is a recently established association of minority firms that manufacture and market health and beauty aid products. Among the Institute's four purposes as set forth in its charter is to fairly represent the interests of its members to governmental agencies at the local, state and Federal levels and to provide informational and educational resources that will contribute to business development and economic progress within the minority community. I have attached some additional material for your information concerning the Institute. What you will not find in that information, Mr. Chairman, is the full history and true profile of the Chief Executive Officers (CEOs) of its member companies.

I think I speak for all the CEOs of our Institute when I say that we are a special breed of minority businessmen who consider ourselves to be rugged individualists and totally self-reliant if not self-made within the limits of such a term. We operate our companies almost exclusively in the private sector and in the best traditions of the Puritan work ethic and the free enterprise system. We represent the oldest industry in which Blacks have been traditionally successful, beginning from the year 1919 to the present. Most of us have built our companies with minimal financial assistance from other sources. Yet today, our member companies employ some 1500 persons with an annual payroll of approximately $25 million and gross sales of approximately $200 million.

I have emphasized these points because I want it to be known from the outset that the Institute does not subscribe to the view that minorities can only succeed in business with massive governmental assistance. There is, in my opinion, a time and place for the right kind of Federal assistance, but that assistance does not necessarily have to be extremely costly, as I will indicate.

The last objective of the Institute as mentioned earlier, that of advancing minority business development, is of course, the primary topic of today's hearing, and we welcome this opportunity to provide our thoughts on this issue. Certainly, there are only a few topics that are of more importance to our member companies and to the Black community as a whole.

I am please to report to this Committee that some of our member companies that received Federal assistance at the early stages of their development are now not only successful, but are among the top 100 Black firms in the country. One of these companies, M & M Products Company of Atlanta, Georgia, received the Small Business of the Year Award this year from the Small Business Administration. This company, whose president was recently honored at the White House for its achievements, now employs more than 400 persons and contributes significantly to the welfare of the Atlanta, Georgia community in many other respects.

Another outstanding success story among the Institute's members is that of the Soft Sheen Products Company of Chicago, Illinois. This company received three separate loan guarantees from the Small Business Administration, two of these during the early stages of its development approximately 10 years ago. The first two guarantees were relatively small, $40,000 and $60,000 respectively, but they enabled the company to develop to the point at which it could have qualified for a third and more substantial guarantee of $260,000, with which it was able to accomplish some major improvements in its production and marketing operations. Without these loan guarantees, the Soft Sheen Company may never

have realized its present growth. The result has been a company that has grown from five employees, basically the family, to approximately 400 today.

This company has been cited in the Congressional Record for its various contributions to the Black community, and reported on in the Chicago daily newspapers and national magazines for its high sense of civic responsibility, particularly when it placed on its payroll a local schoolteacher who had been laid off by the Chicago school system because of cutbacks in its funding. This schoolteacher was able to continue teaching in the public school system because of Soft Sheen's "Adopt-a-School Program."

Yet another success story among our members is that of the Bronner Brothers Company of Atlanta, Georgia. This company received a $100,000 loan guarantee some years ago that provided the base for its expansion to a three-store distributing company and its subsequent entry into the national manufacturing arena, providing employment for some 125 persons. The company annually sponsors the largest Black trade show in the country, bringing together thousands of professional cosmetologists, distributors and manufacturers of all races who cater to the needs of Black consumers. Because of these trade shows and its many civic contributions, the name Bronner Brothers has become a household word in the Black beauty industry.

Mr. Chairman, these are real life examples of minority firms that have received Federal backing at a crucial phase in the company's development which enabled them to attain their status in today's marketplace. There are many other success stories throughout the minority business community that are too numerous to relate at this hearing, but I should emphasize at this time, Mr. Chairman, that the greatest problem of minority business development is the problem of entry. It is true that the embryonic stages are by far the most crucial in the life cycle of all businesses, but traditionally, it has been, and remains, a considerably more difficult stage for minority small businesses.

The minority entrepreneur has to overcome both the customary economic barriers to entry and growth, as well as the artificial barriers based on age-old prejudices and stereotypes. Without various forms of Federal assistance, this dual burden becomes too great in most cases for the average minority entrepreneur to bear.

I should underscore that the assistance received by the three member companies cited in this summary was not in the form of "giveaways," or did not come from the Federal Treasury, but were only guarantees of amounts that the particular lending institution which made these loans were reluctant to, or might not have done so, without the government's backing.

My own experience with these programs has been in the area of marketing. In 1975, with the help of the Small Business Administration, the Office of Minority Business Enterprise, and four other Federally assisted organizations dedicated to the development of minority business, my company was able to penetrate the private sector of the marketplace in a manner that might not have been possible without such help. As a result, my company was able to develop the cash flow necessary to provide for its growth. My company now employs 32 persons here in Washington, D.C., contributing more than $200,000 annually to the city's payrolls. It is my own opinion that Federal assistance in the areas of marketing and management training is equally as important as loans and loan guarantees, because assistance in these critical areas enables the minority entrepreneur to "fish by himself and for all time," and not merely gives him the proverbial "fish for one day."

This opinion is based on my 34 years of self-employment and entrepreneurship. More specifically, I have been involved in the minority business community as an employer since the 1950s when my company employed 152 persons with an annual payroll of $250,000. This was a very significant achievement for those times.

Throughout the ensuing years I have witnessed the negative impact on minority businesspersons of the unavailability, untimeliness and inadequacy of government assistance.

In spite of the success stories I have recited, and there are many, many others out there, most of what we hear and see is the government cutting back on this form of support to the minority business community. We do not understand this action, Mr. Chairman. It makes no sense economically, socially or even politically. Throughout this hearing you will hear evidence of successful minority business development due totally or in large part to a constructive and positive government policy. Retreating at any level on this commitment would be disastrous and only add to the economic disenfranchisement of the minority business community, stifling the economic growth and advancement of Black America and other minority interests.

In closing, although we acknowledge that many positive contributions have been made, we feel that much, much more remains to be done by both the Federal and state governments in order to advance minority business development. The programs we suggest include manpower and job training, continued loan and loan guarantee assistance, help for expanding minority participation in export trade, giving minorities better access to the Federal procurement market, and increased technical assistance services. Many of these program services can be delivered at minimal cost to the Federal government, and the dollar return will more than justify the initial costs.

Mr. Chairman, the Black business community does not want "giveaway" assistance. We expect to pay our way, but minority firms undoubtedly need help to overcome the economic and artificial barriers that prevent us from taking our rightful place in the nation's economic mainstream. Whatever this Committee can do to help transmit this message to the decision-makers at all levels of government will be greatly appreciated.

Senator GORTON. Thank you very much.
Mr. Mayorga?

STATEMENT OF EDWARD MAYORGA, PRESIDENT, R. & E. ELECTRONICS, INC., WILMINGTON, N.C.

Mr. MAYORGA. Thank you, Mr. Chairman, members of the committee.

For the sake of brevity, I would like to summarize my written comments, but I would like to submit them in full for the record.

Senator GORTON. We will be happy to do that. Your written comments will be included in full in the record following your oral presentation.

Mr. MAYORGA. I am very pleased to be given the opportunity to speak before you today.

My initial contribution to the U.S. economy was extremely small in nature. I had to borrow $6,000 from my family in 1974 in order to purchase a company that had gross sales of $34,000.

In addition to having a large deficit net worth which was larger than the gross sales of the business and being on COD with everybody, except for a few cases of cash in advance, we had a difficult time.

It was my goal to own a business. Unfortunately, this was the only one I could afford at the time. It was a communications company at the time: internal communications, external communications, closed circuit TV.

I initially applied to a number of agencies and groups such as the SBA and bankers in order to secure capital assistance. Naturally I was turned down by everybody simply because I did not have the resources, the capital, the collateral behind me for loan assistance.

I did find a banker who decided to bend the rules a little and loan me $10,000 in order to somewhat get on my feet shortly after buying the company. I did talk to one of our major suppliers at that time to possibly get us on an open account, which they did. That was Dukane Corp. They had the full understanding that initially we would not be able to pay them back on time but would eventually. They went along with us.

Six years later, we are going to gross $3.5 million. Our employee base is 32 full-time employees in our home office.

As for the banker who believed in us 6 years ago, we hired him several months ago as our comptroller.

We are on our feet, but we do have a ways to go. As I have said earlier, we have needed additional capital in order to help us grow. Several people have assisted us along the way, one of those being MESBIC's. We applied to 78 different MESBIC's across the country at that time.

Several corresponded with us. Two agreed to pay us a visit. One of those two we had to pay cash in advance for their travel and per diem expenses. I have yet to see that MESBIC again.

The second MESBIC, Sears Tower Ventures, did pay us a visit. They made a concerted effort to check us out, to investigate our business plan, talk to past and potential clients, and they decided to inject $30,000 capital assistance into our organization as a loan.

I did mention earlier in my statement that it was under the guise of compassion, but I am sure they did see some potential. I knew it was there.

In 1978, shortly after receiving the Sears MESBIC loan, I felt we were on our feet enough to apply to meet the minimum economic standards of the 8(a) program, which we did not meet prior to that.

We applied for the 8(a) program in 1978. Two and one-half years later in 1980 it was still pending. We had gotten together with LAMA, the Latin American Manufacturers Association, for assistance in getting into the 8(a) program or to find out why our application was stalled. Shortly thereafter we were approved for certification.

One year later we received our first contract in the 8(a) program. That was several months ago. In the interim we affiliated or tried to associate ourselves with major suppliers of equipment for assistance.

One of these suppliers, Northern Telecom, we asked for assistance in supplying us equipment and possible technical assistance down the road. They agreed to do this. They knew our past. They knew our present. They knew our potential.

I should have known something was wrong when a fellow I have just seen here for the second time, Don Clark, who is now with the SBA, asked me, "How is Northern Telecom doing?"

He was with me in an initial session on a procurement opportunity with the Department of Transportation. Northern Telecom made a presentation on what they intended to do. Don Clark got me aside and said, "You do know they are using you as a front company to only further their goals."

Ten months later Northern Telecom canceled our franchise 1 week prior to signing a contract with GSA on a telephone interconnect system in Asheville, N.C. That very same day they canceled us, they telephoned GSA to inform them we were canceled.

They succeeded in temporarily terminating negotiations with GSA. GSA stated that they would give us, after we protested, an additional 30 days in order to formulate a complete technical engineering submittal for the telephone system. They would give us 30 days for something that had taken us 10 months prior to this to do.

Seven days prior to their deadline we met some people from General Dynamics, Stromberg Carlson, who agreed to work with us, to help us, to assist in whatever way they could. We worked throughout the weekend and several days thereafter. My people were actually typing up until the early hours of the morning.

We had to deliver our submittal to GSA in Atlanta by messenger because of the deadline which they would not extend by 24 hours. We reduced the price to the Government by $130,000 by using a Stromberg Carlson switch in lieu of Northern Telecom.

Stromberg Carlson, General Dynamics, have telephoned us numerous times. They have paid us several visits. They wanted to know what they could do to help us educate our people, people who have not been trained in their particular type of switching arrangements, although we have installed a number of telephone switches using other manufacturers. They have given us a great deal of assistance.

Public Law 95-507 is a great tool for minority entrepreneurs. It allows us to walk into the door. We have to prove competitiveness. We have to supply equipment and services that are needed at a competitive price.

Public Law 95-507 does not give a hard and fast quota. What it does is force major corporations to make a concerted effort in order to find minority entrepreneurs that are capable of possibly supplying needed services. This just opens the door. It does not force them to purchase.

Carolina Power & Light Co., we were working with for over a year to supply them a PBX telephone switch, something we have installed in over 40 businesses.

One year later they recently signed a contract with another utility, Carolina Telephone. They stated that they signed the contract with them because their switch will do everything they need.

They did not even give us the opportunity to submit a proposal. I asked the vice president there what services they could supply that we could not. They could not name one.

Public Law 95-507 will assist companies such as ourselves in at least forcing industry to ask us for proposals, to give us the opportunity to bid. Unless we are given this opportunity, the doors will not even be open for us.

We have been competing in high technology communications since I came into the company. The type of companies that we have been competing with are the Rohlm's, the ITT, A.T. & T., and Northern Telecom factories, multi-billion dollar companies.

Senator Nunn, you mentioned earlier why should companies possibly be allowed to stay in the 8(a) program more than 3, 4, or 5 years.

We are gradually growing and becoming a viable business in the high technology arena. Right now we are capable of supplying large PBX telephone systems. We are about to sign our first large PBX telephone contract which we negotiated for a year. In another year it will be installed. That is 2 years that it will take to put in one system. Hopefully, by the time we get out of the 8(a) program in 3, 4, 5, years, we will have installed two, three, or possibly four switches of this type.

This not only is not a track record in itself. It does not allow us to grow into the voice and data communications, the RF data communications teleconferencing. We need to transcend into this. We are not capable this week of bidding a very large highly technical voice and data system today. In several years, yes, we will be. We need this program.

The 8(a) program is extremely beneficial in helping us to establish this particular track record.

Senator NUNN. Let me ask you this question. If you were trying to write a law or regulation based on your experience as to when graduation should occur, how would you suggest? I am not talking about the technical language, but what kind of criterion would you use as to when firms should be deemed successful enough to move off the 8(a) program?

Mr. MAYORGA. I would suggest upon entry into the program the SBA look very strongly at the business plan. Is that a viable business plan? Does the company really want to get from A to Z in 5

years? Is that possible? Will that company have to grow 500 or 600 percent in 2 years in order to achieve their objectives?

Certain things are not a reality. Certain high technology companies have to transcend gradually—3, 4, 5 years is not a gradual transition to meet their final objectives.

It needs to be determined on a case-by-case basis, not a generalization.

Our particular growth curve—I do not mean to be somewhat contradictory—from last year to this year is 350 percent. Only 25 percent of that growth is in the 8(a) program.

By establishing ourselves as a company capable of negotiating a particular million dollar contract in the 8(a) program has made us a believable and credible company in negotiating large commercial work outside the 8(a) program.

Without the assistance of the SBA, of the EDA during the 10-percent set-asides, and MESBIC's, a possibility of 95–507, and LAMA, I would not be here today.

The intent of the program which is essential and critical to our growth is to help establish a track record. It is working. We are doing it. We are very successful not only in the 8(a) program but outside of the 8(a) program because of it.

Until corporate America is forced and is made aware of the fact that our laws will be enforced, small and minority businesses will not be given the opportunity to grow and to achieve a position as a viable company in today's economy.

I do thank you for your time.

[The prepared statement of Mr. Mayorga follows:]

STATEMENT BY EDWARD MAYORGA
PRESIDENT, R & E ELECTRONICS, INC.
841 S. 17TH STREET
WILMINGTON, NC 28401

BEFORE SENATE COMMITTEE ON SMALL BUSINESS

JUNE 23, 1982

Mr. Chairman, Members of the Committee, I am very pleased to have been given the opportunity to speak before you on "Minority Business and Its Contributions to the U. S. Economy."

I must admit, my initial contribution was extremely small in scope. I purchased R & E Electronics in 1974 for $6,000 borrowed from my parents. That year, R & E Electronics had total gross sales of $34,058. In addition to having a large deficit net worth, salaries for the three (3) full time employees totalled $16,044. Equipment suppliers were a major concern of mine. Not only were we purchasing a very small amount of equipment, but we could not ensure that new orders could be paid for.

The SBA turned us down when we applied for a direct loan. We were unable to find a bank that was willing to work with us in the SBA guarantee loan program. We were unable to get into the 8(a) program since we fell below their minimum economic standards. In 1976 we were at an impasse. We had a choice of securing a $10,000 loan or going out of business. I found a banker that believed in us and was willing to take it upon himself to loan us the money. Simultaneously we had gotten

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together with our only major communications supplier, Dukane Corporation, St. Charles, IL. to request that they put us on open account with the full understanding that we would not be able to pay them back on time.

Six years later, we will now do approximately $3,500,000 in business this year, using 32 full time employees earning a total of $460,000 in salaries. Dukane Corporation sold us approximately $4,600 worth of equipment in 1976. This year we will purchase over $80[illegible],000 from them. The banker that believed in us 6 years ago? Four months ago we hired him as our comptroller.

We have had a number of hills to climb the last seven years. That initial hurdle was to acquire sufficient capital necessary to support day to day operations and allow us to grow. Our last alternative to reaching this objective was Mesbics. We applied to 78 Mesbics across the country in 1977 for financial assistance. Of the five that corresponded, two stated they would visit our operation. One Mesbic made their visit conditional upon us paying their traveling and per diem expenses. After paying their stipend, they came down, promised the world and never corresponded again. The Sears Mesbic, Tower Ventures made a concerted effort to investigate us fully in order to make a determination on our qualifications for financial assistance. According to Sears, the $30,000 capital assistance loan was reluctantly made under the guise of compasssion and a possibility

of potential.

Shortly thereafter, in March 1978, we formally applied to the SBA for 8(a) Certification. In September of 1980, our 8(a) certification was still pending when I approached LAMA, the Latin American Manufacturers Association, for assistance. In January 1981, we were approved for participation in the SBA 8(a) program; nearly three years after our original application. If it weren't for the dedication of organizations such as LAMA, campanies similar to ours probably would never have been given the opportunity to prove themselves.

In early 1981 we attempted to establish ourselves as a distributor of several major manufacturers in order for us to compete in larger contracts. Northern Telecom, Inc., a major supplier of telecommunications equipment, was receptive to the idea of working with us. We were negotiating with GSA on a contract worth nearly $1,000,000 using Northern Telecom equipment. During final negotiations Northern Telecom arbitrarily and capriciously terminated our agreement without consultation. They took it upon themselves to notify GSA of their action. This deprived us of an important economic right without due process and without the slightest sense of fair play. Because of this, GSA terminated negotiations. We appealed, and GSA relented by giving us 30 days in which to reconfigure an entirely new system using another supplier. Seven days prior to

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their deadline we were able to get in touch with General Dynamics/Stromberg-Carlson. They literally rolled out the red carpet. Not only did they supply quality, professional assistance, we were able to reduce the price to the Government by $130,000. They emphasized their dedication to support the furtherance of small and minority owned businesses.

Public Law 95-507 is a great tool for Minority owned firms to use in order to achieve market penetration. This tool is only good if the law is enforced. Unfortunately, as in the case of Northern Telecom they feel their support of Minority Owned Business is simply a matter of them certifying they have made an attempt. Unless large corporations are forced to at least investigate the possibilities of procuring services from Small and Minority Owned Concerns, they will not. We have been attempting to sell Carolina Power and Light Company a telephone interconnect switch for over a year. After numerous visits and hands-on demonstrataions, they signed a contract with Carolina Telephone Company, another utility, without even giving us the courtesy to submit a proposal. Their reasoning was that our system didn't have the capabilities required. (They could not name one!) We have installed numerous systems in the area comparable to what we would have proposed, all less expensive than the system to which CP&L committed themselves. Why is a utility given the right to purchase from another utility without competition, let alone no consideration given to 95-507?

Public Law 95-507 is not a handout program. The end result can only benefit the small business in general! Unless Corporate America is made aware of the fact that our laws will be enforced, Small and Minority Owned Businesses will not be given the opportunity to grow and achieve a viable position in today's economy.

We have been and are continuing to compete with similar high technology communications Corporations. The type projects we are currently negotiating in the 8(a) program would ordinarily be bid by such companies as Rohlm, RCA, ITT, AT&T, etc. It has taken over ten months to negotiate the GSA Telephone System for Asheville, NC. If we are awarded the contract, it will take another year in which to install the equipment. At this rate, we will have a total of three telephone interconnect switches of this type installed as a part of our track record. Before we are able to compete on an integrated voice and data switching network, we would need a track record of large digital switch installations. If it takes us five or six years to establish an orderly track record in digital switches, we would graduate from the 8(a) program before even given the opportunity to establish ourselves in voice and data communications. The standard Government RFP specifically asks for similar type jobs we have installed. The 8(a) program is helping us establish this record in order for us to be responsive to the RFP. Unless a smooth, flexible transition is offered by the SBA, the growth that is

necessary for high technology 8(a) firms to achieve a competitive posture will be stagnated. Individual firms need to be judged on a case by case basis.

Our growth curve this year will be three hundred and fifty percent (350%) greater that last year. Twenty-five percent (25%) of our work this year will be 8(a). By establishing ourselves as a company capable of negotiating million dollar 8(a) jobs, this has given us the credibility to negotiate and bid on large commercial projects outside the 8(a) program.

Over the years we have picked ourselves up by using a number of sources of help, many of which the Government has directly and indirectly supported. Without the assistance received from organizations and programs such as the SBA, EDA, MESBICS, 95-507, and LAMA, I would not be here today. I am very proud to say that every project we have ever worked on we have completed on time, on schedule, within the budget and always at a competetive price. Every dollar we have ever borrowed, we have paid back with interest. Due to the assistance that we have received in the past, we are able to return to our community a viable business with a substantial tax base and payroll. Additionally, we are supplying a needed product at a competetive price.

The intent of the SBA 8(a) program which is essential and extremely critical to our continued growth, is to help establish our track record in order for us to be believable when we bid against multi-billion dollar Corporations. This, I am happy to say is working. We are doing it. We just ask that the SBA be given the authority to be more flexible in the graduation determination.

I thank you.

Senator GORTON. Mr. Mayorga, you illustrated graphically a point which Mr. Griffith made about the great difficulties of any small business, startup and original difficulties.

I was fascinated by your ability to get $10,000 from a particularly understanding banker and then a credit arrangement with your supplier.

As I understand your testimony, it was a year or so later that you got the MESBIC loan. At that point had you been turned down by other banks and other traditional lending sources? Is that your only source?

Mr. MAYORGA. Yes, sir. We were turned down by every traditional source. My family was not able to come up with really much more money than they originally did to help me get into the business.

The banks, financing institutions, FHA, we did not meet any of their minimum criteria.

Senator GORTON. Were those denials. from an objective business point of view, were they justified denials?

Mr. MAYORGA. In my eyes or in their eyes?

Senator GORTON. Trying to be as objective as one can, what I am really driving at is did we need this nontraditional source through MESBIC's in order to get the businesses like yours started? Would banks and normal financial institutions regularly have turned down a business with a record and prospect like yours, or should they have been more daring?

Mr. MAYORGA. We had an existing company that was operational, that was a small company, that had an extremely good business plan that was working then, that we knew would work. The only thing we lacked was equity within the company in order to guarantee a loan.

So if collateral and equity are a prerequisite to getting a loan, we did not qualify. If a quality business plan is what is needed in order to secure a small loan, we did qualify. Fortunately, MESBIC's have more latitude in loan assistance.

Senator GORTON. One of your last comments was on the relationship between your 8(a) business and your general business. Did you say that 25 percent of your business last year or 25 percent of your growth was due to the 8(a) program?

Mr. MAYORGA. Twenty-five percent of our growth this year of our gross amount of money, revenues which we expect to gross this year, will be 8(a).

Senator GORTON. The other 75 percent was on your own?

Mr. MAYORGA. Yes, sir.

Senator GORTON. Can you describe for us how the 8(a) program has opened up additional opportunities for you in the private sector, what role has it played in your growth?

Mr. MAYORGA. One of the first contracts through the 8(a) program that we were negotiating was the highly technical integrated security computer-based system at the FAA Technical Training Center in Atlantic City, N.J. A company in Florida, Atlantic National Bank, one of the largest banks in the Southeast, called around the country to find out who could possibly supply a very highly technical integrated security system.

They called a manufacturer that told them there is a company that is currently negotiating with the FAA and is finalizing that contract presently. Atlantic National Bank contacted the FAA in Atlantic City to learn of whoever was working on the job there.

The FAA stated we were engineering, designing, and installing a very highly technical security system that will be used as the model security system for all the FAA facilities around the world.

This interested Atlantic National Bank. They contacted us directly, asked when we could see them. I found out there was a flight out of town that afternoon and I told them I would be there that evening.

I went down to Jacksonville, Fla. I discussed what we could do for them. We bid against two other companies, Ruscoe, who is a leader in security, and Honeywell. There were only three bidders in this particular system. We were not the low bidder. We received the contract primarily because we were flexible enough to pay them a visit, to design a system specifically for their needs. They needed a system custom engineered for their needs. We were there.

When they asked for an alternate proposal, Honeywell mailed their proposal and sent them boilerplate information. We hand delivered ours and explained ours one on one. We are competitive against the larger companies if we are given the opportunity.

Senator GORTON. Ms. Paige, that success story to a certain extent is paralleled by your own in the last year.

What would you say is the primary or the most important set of reasons that you have been able to make a success of it?

Ms. PAIGE. I think I became angry because everybody seemed to believe that because I was a woman, and I was a black woman, invading a field that was completely male at one time.

Now to go into the management information systems and the computer software field, I am going up against big companies and I am going up against small business that has been manned by men. Everywhere I went, they would say to me, "Well, Ms. Paige, you send us what you can do. Send us your capabilities. Then we will get in touch with you."

We would sit down and write up a good statement, send it in, and we would never hear from them. Then when I would call the contracting officer, he would say, "Mr. So and So was in here."

I began to find out that the contracting officers were more willing to go with the guys they knew than to take a chance on a woman who was starting a new business. I think that just by persevering and by continually letting them know that as a woman just telling me to go away was not going to work and they found out that if they worked with me I was much better to get along with.

Senator GORTON. Is that the lesson that you would have for other people in your situation?

Ms. PAIGE. Perseverance. Do not give up.

Senator GORTON. That is really what I get from all of you.

Mr. Griffith, on another subject, you emphasized the potential role of SBA or the Federal Government in general not only in the area of capital but in the fields of marketing and management.

Could you give us a critique of the way in which the Federal Government operates in those areas and how we could improve the

performance of SBA and other Government agencies in marketing, management training, procurement opportunities and the like?

Mr. GRIFFITH. From my experience, the Federal Government seems to be very reluctant to lend its influence in the private sector.

I had a conversation once with the Administrator of the SBA, Mr. Weaver, and I asked him for some assistance in that area. He referred me to the deputy director or the assistant administrator for minority small businesses.

I went to see him and cited the specific problem I was having with a major retailer, a national retailer. He immediately said that the Government just cannot get involved in the private sector. They cannot compel these people to buy from you or even give you an audience.

I pointed out to him that I was not expecting him to compel the retailer to see me but just to lend his influence even if it was in the form of a letter addressed to me saying that I was a reputable businessman in the Washington, D.C. community, and so forth, so I could use this letter just to convince the retailer that I was not a fly-by-night small manufacturer who would not be around another year or so.

My feeling is that this reluctance should be overcome or withdrawn and that the Federal Government under agencies such as the SBA should play a more direct role in persuading large corporations, who in many instances do business with the Federal Government, to be more receptive to offerings from minority manufacturers.

There are certain agencies in place now, the National Minority Council, that have done a very good job in that arena, but more emphasis should be placed on marketing, I feel, because, as I said in my testimony, you are enabling the entrepreneur to fend for himself. If he gets that assistance, if he gets into the door, if he could just get to see the buyer and get his first contract and perform so that he can demonstrate that he can perform, I think that means a whole lot more than just giving him startup money, giving him a loan, and what not, although that is very important.

My feelings from my own experience is that assistance of that type in the area of marketing, enabling someone to earn money to develop his cash flow, is even more important.

My business is not capital intensive so I quite naturally take that position.

Senator GORTON. Thank you.

Senator Nunn?

Senator NUNN. Mr. Chairman, I think you have covered most of the questions that occurred to me and I know we have other witnesses and we are probably running out of time this morning.

I just want to congratulate each member of the panel for being here today. Thank you for your participation. The stories you have told indicate that perseverance, persistence, and occasionally, as Ms. Paige said, just getting angry enough to stick with it still play a role in developing businesses and minority businesses. Certainly that is part of what has built our free enterprise system.

We are pleased to have had you. I think certainly you pointed out areas, each of you, that can be improved in the governmental

programs. You have made us feel that the governmental programs are certainly worthy of not only keeping but trying to strengthen and improve.

I thank each of you for being here. I congratulate you for the success that you have had and wish you well.

Mr. Chairman, at this point in the record I would like to insert several documents. The first is a letter to me from Mr. Sidney Ragland, president of Gemini Services, Inc., of Columbus, Ga. In addition, the June issue of Black Enterprise magazine, which Mr. Graves publishes, and which includes the 1982 BE 100 list, has two articles about successful and prominent Georgian minority businesses. The first is about Atlanta Life Insurance Co.; the second is about Rossmark Specialty Co. in LaGrange, Ga.

[Material follows:]

COLUMBUS, GA., *June 4, 1982.*

Re telephone call of June 3, 1982, with Thomas Dortch.

Senator SAM NUNN,
U.S. Senate,
Committee on Small Business,
Washington, D.C.

(Attention Alan Chvotkin).

DEAR SENATOR NUNN: Thank you for your letter of June 1, 1982 inviting me to attend the small business breakfast being held in Washington. I appreciate your offer, however, I will be unable to attend. I do hope that you will retain me on your list and that if another occasion should arise, I anticipate being able to respond in a positive manner in person.

In response to your letter I am submitting my views on the problems minority businesses are encountering.

1. The policy of the S.B.A.'s 8(a) program of continuing to support firms that are viable should be corrected to get those businesses out of the program so that waiting firms can have the same opportunity they had.

2. The requirement by S.B.A. of a firm having to be in business and performing before S.B.A. will assist in the 8(a) program should be revised where qualified individuals or companies can receive assistance.

3. Large companies receiving government contracts must be regulated in that a requirement be set for them to use small and minority firms as subcontractors on government jobs when the small or minority firm is certified by S.B.A.

4. The method of setting size standard should be revised according to industry and not combining as is done in some cases currently.

5. A sealing should be put on the dollar amount of assistance from 8(a) that a menial task company will receive such as food service and janitorial companies.

6. Interest rates: Measures should be taken to cause the interest rate to fall immediately. It is driving the backbone of this country, the small business, out of business.

7. The high rate of unemployment should be given as much attention as some of the other programs. One way to defeat unemployment is with stronger small businesses.

8. The Equal Rights Amendment should be passed and not passed in a watered down meaningless state.

I hope the above points will be beneficial to the June 23 Senate Small Business Committee hearing and will enable relationships and economic standards to improve in the near future.

I again thank you for the invitation and regret that I will be unable to attend but anticipate my presence at the next opportunity. If you feel I can be of any further assistance in this matter or in the future, please do not hesitate to call me.

Respectfully,

SIDNEY C. RAGLAND.

[From Black Enterprise, June 1982]

Atlanta Life Insurance Co. Spearheads Renewal of the South's Largest Black Business Community

The pink marble and tinted glass headquarters of the Atlanta Life Insurance Company bridges two worlds. To the west of the two-year-old structure, skyscrapers of downtown Atlanta grasp for the clouds. To the east, the shops and small office buildings along Auburn Avenue cling to survival, as what once was the heart of the city's black business district undergoes rejuvenation.

The decision to place Atlanta Life's home office at 110 "sweet" Auburn Avenue was both pragmatic and symbolic. While pragmatism dictated that the expanding insurance firm be situated near the city's commerce center, the building's location symbolizes the renewal of a black business area that is an integral part of Atlanta Life's history. "We built it here because we hoped to enhance the area," explains Mrs. Helen Collins, a 40-year veteran of Atlanta Life and vice chairman of its board. Adds Mrs. Collins, who coordinated the building's constuction: "We certainly didn't want to leave our roots."

Sticking to those roots and sound, conservative business practices during its 77-year history have brought Atlanta Life the highest net earnings of any black business in the nation. At the end of 1981 Atlanta Life listed assets of more than $111.5 million, with a net gain after payment of dividends and taxes of nearly $1.3 million. The company presently does business in 12 states and serves nearly 585,000 policyholders with more than $1.6 billion of insurance in force. Last year the company had a healthy capital and surplus account of more than $23.5 million.

Traditionally cautious in the way it has invested its money, Atlanta Life in 1981 had more than $88.6 million invested in mostly low-risk utility and government bonds and blue chip stocks. A small but significant portion of the company's assets over the years has been in real estate mortgage loans to black homeowners and businesses that, particularly in the days of segregation, white institutions were reluctant to finance. The company has gradually reduced its involvement in that area, but last year such loans accounted for more than $5 million of the firm's assets.

The new five-story, six-level headquarters building is another marker of the company's stability. It cost $10 million and was paid for in full by the time the building was dedicated in July 1980.

Conservative fiscal management, a reputation for paying claims promptly, and the development and retention of a loyal and industrious staff have been the hallmark of a company that began with a few dollars and a lot of hope less than a century ago.

Atlanta Life was started in 1905 with an investment of $140 by one of the city's leading black businessmen, Alonzo F. Herndon. Atlanta's black population was growing rapidly after the turn of the century. Many newcomers had moved from rural areas to the city, where they found menial jobs and often poor living conditions. The rates of mortality and illness were high and many families found it difficult to set aside money for the emergencies of sickness and death.

White insurance companies wanted little to do with this group, so black associations were formed to meet the economic needs of the community. Among them was the Atlanta Benevolent and Protective Association which provided a rudimentary form of sickness and burial insurance and was founded by two ministers of the Wheat Street Baptist Church. The association floundered, however, when it was unable to comply with a law passed by the state of Georgia in 1905 that required such groups to post a $5,000 surety deposit.

Herndon purchased the association for $140 and paid the deposit. At the time, Herndon, who had been born in slavery, was one of Atlanta's most successful black businessmen. He was the owner of three thriving barbershops in the city's downtown area, one of which was known as the best in the South. He was known and respected in those days of segregation by both the black and white communities for his honesty and enterprise.

Atlanta Benevolent and Protective Association was renamed the Atlanta Mutual Insurance Association, with Herndon as president. By the end of 1905, Atlanta Mutual had its own building and sales in several Georgia cities of nearly $181,000, representing more than 6,300 policies in force.

The company experienced rapid growth in its early years through the acquisition of other small insurance associations that failed either because of a lack of capital or inability to meet state requirements. With expansion came the establishment of a network of agents to service the growing number of insured—mostly low-income—blacks for whom Atlanta Mutual and similar firms provided the only economic safety in time of crisis.

This safety net was offered in a type of coverage known as industrial, or home service, insurance. Sickness benefits usually amounted to a few dollars a week and death benefits were limited to $500. Premiums were small and collected on a weekly basis by Atlanta Mutual agents.

Edward Simon, 73, Atlanta Life board chairman who started with the company in 1934, worked with agents in the field. Hotels and restaurants were segregated and agents often had to rely on the black community in a town for decent food and lodging. "We had policyholders who would board us," Simon recalls. "In some cases they would feed us and do our laundry. In some of the larger cities in those days, we'd stay at the YMCA."

By 1922 Atlanta Mutual had increased its capital stock to $100,000 and was renamed Atlanta Life Insurance Company. In an effort to secure a larger share of the insurance market the firm began to offer ordinary life policies. During that decade the company opened branches in a half dozen new states.

Alonzo Herndon died in 1927, and the presidency passed to his son, Norris, an alumnus of Atlanta University and the Harvard Graduate School of Business. Under Norris Herndon's presidency, which continued until his retirement in 1973, and the farsighted management skills of such executives as the late Eugene Martin, company secretary; Lemuel Haywood, agencies director; Walter Smith, investments manager; and Fred Toomer, auditor, the company continued to prosper and expand its services while weathering fluctuations in a business climate influenced by depression and a world war.

By 1950, Atlanta Life was operating in 11 states in the South and Midwest, employed more than 1,000 black men and women, and boasted a premium income of more than $7.3 million annually, and had assets of $23.9 million. During that decade, Atlanta Life became involved in the Civil Rights Movement, contributing tens of thousands of dollars to organizations in the vanguard of the Movement. During the 1960s, when black church doors in some southern communities were closed to civil rights meetings because of threats and intimidation, the rallies were held in the local Atlanta Life offices.

Meanwhile, to assure that Atlanta Life remained firmly in black hands after his death, Norris Herndon, who had no close relatives to carry on the company, created the Alonzo F. and Norris B. Herndon Foundation. Herndon owned 90 percent of the company's stock. He agreed to turn over a portion to the Foundation each year and bequeath the remaining shares to the Foundation upon his death. Herndon died in 1977 and today the Foundation owns the majority of Atlanta Life stock.

Norris Herndon was an astute businessman, a retiring bachelor who was reputed to be a millionaire and perhaps the richest black man in America. Never ostentatious with personal funds, Herndon is said by those who knew him to have contributed large sums anonymously to black causes.

As the years passed, a number of the company's pioneer managers, executives who had devoted practically their entire careers to Atlanta Life, either died or retired. In the wings, however, was a group of sharp young managers tutored by the pioneers and groomed to move into the top slots. Among them was a young actuary named Jesse Hill Jr.

Hill had grown up in a tough south St. Louis neighborhood where he lived with his mother and maternal grandfather. His grandfather, Major Dennis, was a self-employed drayman who sold ice and watermelon in the summer and coal and wood in the winter from his horse-drawn wagon. As soon as he was old enough, Jesse Hill helped out, getting an early business education in the streets. "Sitting beside my grandfather and dealing with cash and inventory provided lasting lessons in business and business development," says Hill, 55.

Working to earn his way and with scholarships, Hill completed his undergraduate work at Lincoln University and received a master's degree in business administration and actuarial science from the University of Michigan. He started with Atlanta Life in 1949 as an assistance actuary and has never worked for another company.

As Hill rose through the ranks, eventually to vice president and chief actuary, his performance was followed closely by President Herndon. When Herdon retired in 1973 he chose Hill to succeed him. The board approved Hill's appointment as president, chief executive officer, and chairman of the exectutive committee. "If I had to say what was the greatest thing that has happened to me from the standpoint of my career, it was the confidence Mr. Herndon put in me," Hill says today.

The insurance business had undergone tremendous change in the decades since Atlanta Life's formation, and the company found itself with new challenges in the 1970s. The number of black insurance firms had plummeted from a high of 60 in 1957 to 39 in 1974. Large white firms were actively recruiting black agents and office personnel and carving up a consumer market that once had belonged almost

entirely to black insurers. Atlanta Life responded to the challenge by expanding its operations into a total of 12 states and merging with several other black companies.

According to President Hill, the company's marketing strategy for the 1980s should be to conserve a "significant part" of the industrial insurance market "where the need exists." But, he adds, the "the handwriting is on the wall and we have to go for a greater market share of the growing black middle class business while trying to capture a bigger part of the total market."

While Hill is convinced that the "trend in the industry is away from industrial insurance," it remains the best kind of security for some customers. "Even today, the basic dignity of a funeral burial is still not provided in a lot of families," he points out. "And the basic need for life insurance in case the breadwinner passes is met only through the special services of an industrial agent. Now that is changing, but there is still a vital market out there. However, I think Atlanta Life and other companies are clinging too closely to that market."

Other executives share Hill's view. "We've primarily still a home service business," says Henry Brown, 60, an Atlanta Life vice president and company secretary. However, he adds: "I think there is a much wider market we can cover. I don't see why we shouldn't cover the total market—all the public—black, white, or yellow."

James Harrison, 42, a vice president and chief actuary, notes that while some insurance companies have birtually abandoned the low-income consumer, "we are not going to. We have to provide some kind of economic dignity to black Americans out there. We still have a responsibility to that segment of the market."

New insurance written by Atlanta Life in 1981 reflects the compny's commitment to the type of coverage upon which it was founded, as well as its efforts to provide a wider range of services. Nearly $39.9 million in new policies was issued for industrial life or home service insurance. Whole life endowment policies accounted for more than $34 million in new business, and ordinary term insurance $3.5 million. At the same time, the company paid more than $12.7 million in benefits to holders of industrial, ordinary and group life, and accident and health policies.

Part of the company's thrust to expand and capture a greater share of the total insurance market should involve the maintenance of a staff of well-trained and versatile agents in the field, Hill believes. "The growth and development of this company is going to be on the backs and shoulders of the rank-and-file agents," he says. He worries, however, that as older, proven agents retire, the company won't be able to attract new people of the same caliber.

To attract and train good agents, Hill initiated an in-service training program known as the Career Sales and Management Academy for Selected Business Majors. Begun four years ago, the academy is devoted to training new employees with sales and executive potential. Most of the 75 men and women who have gone through the academy were recruited by Atlanta Life after graduating from black colleges and universities where they majored in business administration or related fields. To learn the nuts and bolts of the insurance business, the potential agents attend four weeks of classes at Clark College, in Atlanta, and receive on-the-job training in the home office.

"It is one of the highlights of our progressive move," Hill says of the academy, noting that seven of its graduates already have become district managers, and ten have become staff managers. Atlanta Life now has a total of 1,029 persons in the home office and 60 branches, including 585 agents.

Sound business practices and a commitment to fulfilling the needs of blacks seem to be a credo at Atlanta Life. Says Hill: "The great thing that I think is going to carry Atlanta Life is that it has had a commitment to ethnic uplift, the uplift of black Americans. The theme for us is that ours is a quest for economic dignity. In a nutshell, that is what Atlanta Life is all about. I think that is what the elder Mr. Herndon was all about, and that is what his son and all those pioneers were all about."

[From Black Enterprise, June 1982]

Hard-Driving Walter Ross Raised $6 Million To Buy and Revive an Ailing Rubber Products Company

Mention the word fashion and all kinds of images come to mind: flowing silks, designer jeans, Cardin suits. Well, now add another—floor mats. That's right. The kind that lie dormant in cars awaiting the mud, dust and street dirt from the shoes of the driver and his passengers. In case you haven't heard, automotive floor mats are a fashion item according to Walter L. Ross, a man who should know. He owns a

company in LaGrange, Ga., which makes lots of them, and in the past year and a half he has learned much about this unusual side of the fashion business.

"Color is the main reason people choose mats and that makes the mat a fashion item," says Ross, president and chairman of the board of Rossmark Specialty Products, Inc. "We're trying to customize for the mass market in order to give people what they want. Even if they can't afford to buy new cars now, they can afford to buy floor mats."

Ross's business is tailor-made for him. He had been looking to purchase a company for about three years when he found out that Rubbermaid, Inc., the $357 million rubber and plastic products company, wanted to sell its sluggish automotive subsidiary. In April of 1981 he bought the company for approximately $6 million and began to drive towards profitability. Last year, company sales amounted to $20 million. Ross confidently expects to double this figure within the next three years.

A former Union Carbide executive with several years' experience in corporate financial planning and mergers and acquisitions, Walter Ross is not modest about his latest accomplishments. "To take a company that was losing $3 million a year, make it more efficient, and gain a market share in a recessionary time against companies that are so much larger—that's what I call winning," says Ross.

"Walter's done a fantastic job," says Charles V. Bush, a close friend and a minority partner in Rossmark, and who is a corporate financial executive in the Los Angeles area. "He visited with major auto manufacturers and retailers, reviewed product lines and operations, and made the necessary adjustments to produce what his customers wanted. It rally was a classic turnaround situation."

Ross originally found out that Rubbermaid had a subsidiary for sale through another good friend, Don Cornwell, a vice president at the investment banking firm of Goldman Sachs in New York, mentioned to Ross that Rubbermaid was looking for a buyer for its automotive products division. Cornwell, a corporate finance specialist, doesn't handle mergers and acquisitions and he says it was merely a "quirk" that made him instrumental in putting Rubbermaid and Ross together. "Rubbermaid was a client of mine and I knew they had a business to sell. Walter was a good personal friend and I knew he wanted to buy a business. So it was a matter of introducing two different parties About a month late I got a call from Walter and he told me he had bought the company."

International Paper Credit Corp. of New York loaned Ross approximately $5 million to finance the acquisition. Ross himself assumed Rubbermaid's liability payables which accounted for the other million. Ironically, E. F. Hutton, the big stockbrokerage firm, was acquiring International Paper Credit Corp. during the time that Ross was acquiring his business—a chain of events which, he says frankly, "scared the hell out of me."

On February 23, Ross and Rubbermaid had reached a deal requiring Ross to pay $5 million by March 20. He was concerned that the deal might be held up by the International Paper Credit-E. F. Hutton transaction. There were some anxious moments for Ross, but the financing for the acquisition came through on schedule.

The Rubbermaid-Ross deal was but one of many leveraged divestitures and buyouts that take place in the country. Industry analysts point out that there are a variety of reasons why a diversified company may choose to sell one or more of its divisions. It may have made an error in projecting the growth of a division, and so decides it would be better to sell the division and take the cash to reinvest elsewhere. Or a company might decide to change the course of its business and may therefore choose to sell any part of the business which would divert resources from the main thrust. And there is always the situation in which a company needs immediate cash and so sells off some of its assets.

In the case of Rubbermaid, the international conglomerate headquartered in Wooster, Ohio, the divestiture was largely a matter of incompatibility. Rubbermaid is primarily a manufacturer of kitchen and houseware products. In 1980 it decided that its automotive accessory unit required different business practices and tactics from those used for its main business. Thus the automotive products division was not a good fit for Rubbermaid, but for entrepreneur Walter Ross it was ideal.

"I had my eye on a couple of companies which, on a scale of one to ten, were sevens or eights," says Ross. who had set up his own company—W. L. Ross Enterprises in New York—for the specific purpose of identifying a business to buy. "This one came out to be a twelve in terms of what I was looking for."

What Ross sought was a business with enough market diversity to absorb his products. And what he found in the automotive accessories company was a retailer aftermarket in stores such as Zayre's and Sears that sell automotive mats to car owners, and an original equipment market (OEM) in which mats are supplied to major auto manufacturers as original equipment for their cars. The aftermarket

and the OEM potential also offered different channels of product distribution—from mass merchandisers such as Montgomery Ward to major automakers such as Ford. This provided Ross with just the market diversity he was seeking.

But why, in 1981, the worst year ever in the history of the automobile industry, would anyone want to purchase an automotive-related business? Ross's answer relates back to elementary economics. "Basic investment strategy is to buy low and sell high," says Ross. "You can find bargains of undervalued properties when other people think they're bad. Early on, I had looked at the radio and TV industry as a purchasing option. There you have to buy businesses at twelve times the cash flow or projected cash flow. In the automobile industry, you can buy at five times the cash flow. So, as long as money is green, five times cash flow gave me a better option."

Ross seems to have a knack for choosing the better option. He is a Harvard grad—of the Business School variety—and extremely proud of it. He earned his MBA in 1973 in marketing and finance. The San Francisco State University political science graduate has also served as President of Harvard Business School's Black Alumni Association, and once served as financial chairman for California Congressman Ronald Dellums and Los Angeles Mayor Tom Bradley. For a while he flirted with the idea of making a career of politics, but he finally chose business instead. "Politics has limited access to money and power," believes Ross. "I'm a capitalist at heart and my temperament is better suited to the business world."

At 6 feet plus and with a hefty build, Ross, 38, is what you might call a "bear" of a man. He projects a no-nonsense air which borders, some would say, on arrogance. He describes himself as hyper and demanding, and admits he has little tolerance for vacillators. As he puts it, "I'll look you right between the eyes in a second with a question and won't let you dance too much." Most of his business associates would agree.

"He's a strict businessman, very demanding, almost to the point where it might intimidate some people," says Joyce Bennett, group manager of Marketing Services for M & M Products Co. in Atlanta. "His way of approaching things is quite thorough and I find it very refreshing."

Louis G. Peloubet, corporate comptroller for Union Carbide, who worked closely with Ross when Ross was with the Connecticut-based chemical corporation, says, "People like Walter find it difficult to work for a big corporation. He's very broad gauged and impatient to get things done. He's finding that it's much more fun in the situation where he has control rather than in a big corporation with only a piece of the action."

For sure, Walter Ross wants results, and he expects his 228 employees (50 of whom are black) to produce them. But while he may demand a lot from others, he definitely stretches himself to the maximum. He takes seriously his own personal motto: "To do whatever it takes to achieve my goals." To him, that meant working on a nonstop basis during the first few months after he had purchased the company. He made about 100 trips last year, meeting with retailers, manufacturers and salesmen across the country. When he wasn't on the road, he was at the company plant, sometimes staying there for 24 hours at a time in order to monitor the three separate 8-hour shifts. He lost a lot of sleep during that period, but he believed it necessary in order to fully understand the company operations and to see on a firsthand basis what was going on.

"I decided to make individual decisions on all the managerial people so as not to panic the organization," explains Ross. "If you come in and just say, 'You, you, and you—out!' that panics all your good people. It does take a lot of time to work through the process and sit down with each manager, but, by your doing that, the people who stay know why they stay and the people who go know why they go. So you don't have a morale problem in the company."

Ross, who is called Walter and not Mr. Ross by the employees, replaced virtually all the top management after completing his individual assessment process. Only 2 out of the 22 managers who worked for the former Rubbermaid subsidiary now work for Rossmark. Three of the current managers are black.

In addition to restaffing, Ross also instituted a quality control system which demands management accountability. The system can track down a problem to its point of origin, whether it be in the area of customer service, credit, shipping, scheduling, material management or purchasing. The result is increased productivity.

"The main difference between myself and the Rubbermaid people is the turnaround time between recognition and solution of a problem—which I have shortened drastically," says Ross. "I guess it's really a small business philosophy as opposed to the philosophy of a gigantic corporation. Corporations and bureaucracies have red tape. We've collapsed the levels in the decision-making process. We don't

have to go to Wooster, Ohio, to solve a problem. We do it here," "I think that's the best overview of his talent," remarks Kevin O'Donnell, the company's production manager. "He has the ability to choose the right people to bring in."

In addition to having the right people working for him, Walter Ross knows the importance of manufacturing a good product. Rossmark offers a wide range of vinyl and carpet floor mats, starting from a distributor wholesale price of $5.95 and running on up to $15.95. (The cost to the retail market would be about 25 to 50 percent higher.)

Although floor mats comprise an overwhelming percentage of the company's business, Rossmark also makes automotive accessory products in the plastics field, such as snack trays, litter baskets, and portable coolers.

Currently, Rossmark's major competitor is the $350 million Ohio-based Lancaster Colony company. Lancaster and its subsidiaries rank number one in the OEM floor mat business, the aftermarket floor mat area, and the plastics market. Walter Ross says that his company is number two "and growing" in the OEM equipment area and is probably number two in the aftermarket floor mat sector. He explains that he cannot be as definite about the aftermarket ranking since there are constant changes and shifts in that marketplace.

Rossmark has made substantial headway in a very short time and its competition would like to know what in the way of new product planning and research is going on at the LaGrange plant. Walter Ross is aware of that, of course, and remains determinedly and steadfastly mum of the subject of possible new products. But there are six engineers on the research and product development staff and it seems most likely that they have several concrete ideas on the drawing board.

Last July, Ross commissioned Darden Research Corporation in Atlanta to conduct a study of the automotive floor mat market. The ensuing study revealed that color, fit, and durability are the three critical factors in a consumer's decision to buy. With the Darden study and a $1 million advertising and sales effort, plus his own extensive research, Ross is doing all he can to gain an edge on the competition.

One indication of the company's growing success is the dramatic increase in its market value. Fourteen months ago, Ross purchased the company for about $6 million. Now, Ross places the value of the business at $15 million. He is pleased with the turnaround of the company in so short a time, but he vividly recalls the long struggle during those first few months. "I didn't really perceive the magnitude of the problems associated with the business," says Ross. "I didn't perceive myself working that hard for as long as I did. Also, two months after I got into the business, the economy went into a recession and that forced a lot of quick decisions and changes just to survive."

Although the company has improved, his marriage did not fare as well. Ross and his wife were divorced last year and he admits that the long hours he had to put in the business probably contributed to its demise. In the end, however, he says, the breakup was a matter of two people who simply agreed to disagree.

In recent months, his pace has slowed somewhat. Ross no longer stays at the plant for two or three shifts; his average work day now runs about 12 hours. In January he set up a three-person operating committee under his direction which actually runs the company.

Leisure time is still hard to find but when he can, Ross spends some time on the tennis court. He used to play tennis five days a week at up to three hours a session. He says his main hobby now, however, is overseeing a younger brother and a niece, both of whom he has raised. Ross also has a 19-year-old son, Mark, who is a pre-med student at Columbia University. Ross named the company Rossmark after himself and his son.

A native of Warren, Ark., Ross says that he is quite comfortable living in the South after so many years of working in the Northeast. But he has not yet adjusted to one aspect of his move—the three hours a day spent commuting to and from work. Ross currently maintains his residence in Atlanta and he admits that the lengthy drive has become quite tiresome. He has considered moving to LaGrange but is not willing to give up the advantages of living in a large city.

For Walter Ross, the immediate goal is to assure the continued growth of Rossmark Speciality Products, Inc. As a result of his acquiring this business, however, certain other manufacturing opportunities have become available and Ross is once again in the market for another possible buy-out. Does this mean that since Rossmark is now on the right track the thrill is gone for Ross?

"No, not really," Says Ross. "I gained an advantage through the purchase of the business and I could have closed it down at a substantial profit last year without lifing a finger. But I wasn't interested in a quick profit at the time, I was interested in a long-term base.

"So the thrill isn't really gone. I'd say the challenge has changed: to tun this company and go out and buy another one. Besides," Ross adds with a smile, "if you're playing with fire every day, how can you lose the thrill?"

Senator GORTON. Our third and last panel will be Mr. Rivera and Dr. Wright.

Mr. Rivera, you may proceed.

STATEMENT OF VICTOR M. RIVERA, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. RIVERA. Thank you.

Mr. Chairman, I very much appreciate this opportunity to discuss the Commerce Department's new approach to minority business development, how we plan to help maximize the economic contributions of minority owned businesses, and how we propose to help identify and minimize constraints on the minority business development.

I have submitted a copy of my prepared statement for the record and would like with your permission to summarize that statement for you this morning.

Senator GORTON. We would be delighted to have you do that. Your entire statement will be included in the record following your oral presentation.

Mr. RIVERA. Thank you.

Minority business development in this country, as we all know, is characterized by a low business ownership or participation rate by minorities. It is about one-fifth of that of nonminorities. It is also characterized by a low growth or expansion rate. Over 82 percent of minority businesses in this country have zero employees. Minority businesses are also characterized by a high failure rate, almost three times higher than nonminorities.

Gentlemen, these figures are not the real problem. The true problems for the Nation are those that stem from the tremendous waste of human capital, human energy, imagination, and spirit in our inner cities as well as rural areas.

Because of this waste, we need to view minority entrepreneurship as an underdeveloped, underutilized national resource which given the opportunity can make significant economic contributions to the GNP, to employment, to innovation, exports, et cetera.

Unfortunately, minority entrepreneurs, generally speaking, have to overcome some serious problems before they can make greater economic contributions. We find that minority entrepreneurs are clearly at a disadvantage in terms of lack of access to timely information about business opportunities. Minorities are also at a clear disadvantage in terms of lack of access through resources, both capital and management technical assistance.

In addition, minority business owners are hurting because of the recession. They are also very confused and understandably so because, for lack of a better term, there is a fragmented, seemingly uncoordinated assistance system in the public and private sector.

There is also a perception problem. Minority assistance programs are often and unfairly viewed as wasteful, nonproductive, and as giveaways. This view is sometimes shared by minorities.

Before we tried to do something about these problems when I joined the agency last year, we proceeded to ask ourselves some basic, some hard, some possibly long overdue questions. For example: Who is responsible for minority business development and why? What is the role of the Federal Government, State, and local government? What is the role of the private sector if any? What is the role of the minority community, its organizations and institutions? Also, what is the role of the minority entrepreneur?

One very quickly comes to the realization that minority business development, given the task and the limited resources, should be a cooperative effort with shared responsibilities and accountability.

Other questions we asked ourselves were: What resources are being used for minority business development? How many are real versus paper programs or referral type programs? How can the real programs be better leveraged and what additional resources are available? What entities are out there helping or supporting minority business development? What relationships, if any, exist between them? How can those relationships be strengthened?

The last and possibly most important question is what results are expected from our efforts. What performance measurements will determine if we are accomplishing our goal? If we are called the Minority Business Development Agency, should we not be measured or held accountable on our ability to impact on the problems I mentioned earlier, namely, low formation rate, low expansion rate, high failure rate, rather than activities such as business plans developed or number of hours of management technical assistance?

We set some new goals. That was to promote the formation and the expansion of viable and competitive minority-owned businesses. Part of that goal also was to insure that minority entrepreneurs become greater and more proportionate contributors to our Nation's economy.

Accomplishments will be measured. That is, what results impact benefits that MBDA programs have and at what costs.

When I joined the agency in April of 1981—that was the middle of the fiscal year—I had two main problems to contend with, problems that I had very little control over. First was a worsening recession that was disproportionately affecting minority businesses.

Second, the agency was just beginning to implement a major assistance program developed by the prior administration.

Although we had goals, we had goals without a program. We had to wait 1 full year before we could announce and implement our program. That new funding cycle is just beginning.

However, during the last year we set two major priorities for ourselves: First, to review and evaluate all MBDA programs and funded organizations to insure that they were being run efficiently and that they were effective and responsive to the needs of the minority business community, and that we were complying with the mission of Executive Order 11625.

Unfortunately, as a result of that exercise, we had to drop or defund organizations for poor or nonperformance. In some cases there were serious cases of financial mismanagement or other audit or IG related problems.

It has obviously set us back because we lost access to some well-established networks. Our actions were also misinterpreted or misreported.

As a result of this exercise, we are now beginning to see a much better quality of assistance as well as performance and financial accountability by our funded organizations.

I mention this because I think it is critical to understand that it is a first step if we are to provide the type, the quality, the intensity, the timeliness of assistance that are going to make minorities more competitive in the marketplace and less dependent on Government assistance in the long run. We need to utilize the services of competent providers of service.

Our second priority was to develop and implement a new and better coordinated MBDA delivery system in 100 areas throughout the country that would serve as a basis for a better coordinated Federal delivery system to assist minority entrepreneurs. There is an obvious need to reduce the confusion and duplicative services as well as the unnecessary overhead and administrative costs and wherever possible the need to utilize the most dollars for program delivery.

On June 11, we announced in Pittsburgh the first in a series of Reagan administration initiatives on behalf of minority business entrepreneurs, something called a business development center program. The concept is very simple. Essentially we are saying we know that there are capable minority firms out there. We know that there are opportunities. Despite the recession there are business ownership opportunities. There are marketing opportunities, both domestic and international, both public and private sector.

We also know that there are resources out there, both traditional and nontraditional resources. What we need is to utilize the services of someone who would bring together and develop and maintain automated inventories of these services. That would be the first responsibility.

The second responsibility is to broker or match. That is to take an opportunity, match it with a capable minority firm, provide comprehensive assistance, either capital or management technical assistance, to make the marriage work. That is the brokering function.

The third function is to report results. We are especially interested in how many businesses did we help start, how many did we help expand, how many did we save from failing, how many jobs were created or saved as a result of those efforts.

These centers will be linked by terminals. There will be 100 throughout the country. There will be three or four in Georgia. There will be one in Seattle. They are connected by terminals.

We in Washington essentially become an information clearinghouse on opportunities and disseminate that information via terminals to the centers who will match it up with the minority firm.

You have heard from several speakers today on the problem of marketing and the problem of access to resources. The technology certainly exists now to gather that information not only on a regional but national basis and spread that information out.

We need to disseminate that information. We live in an economy that is becoming more and more national in scope and increasingly

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international in scope. By using this technology and setting up the proper information gathering systems, we can collect information and disseminate it in a timely fashion to minorities and make something happen.

In order to maximize our economic contributions, we are targeting our efforts not exclusively but on four groups: those businesses that have high employment potential. We are expanding our acquisition program and our joint venture programs to make that happen.

We are especially interested in those businesses that can contribute to innovation or technological progress. We are also expanding our technology commercialization program. You heard one of the speakers talk about how useful that has been to a number of businesses. We are expanding that from eight to ten centers.

We are especially interested in businesses that have export potential. We have just let out 15 contracts or awards to assist minorities expand or enter the export field.

We are also especially interested in helping 8(a) firms, that is firms that are on the verge of graduating or in that transitional period. We recently signed an agreement with Dr. Wright to jointly assist 8(a) firms.

There will be 100 BDC's in operation by October. The expense or the cost to us is $35 million which we will expend between now and the end of the fiscal year, but we think, in view of the nature of the program and the sophisticated technology and data bases that we are acquiring and the sharing of information, we will see some measureable results.

We have made some other changes in terms of how we do businesses. We have moved from grants to cooperative agreements. We have moved from 100 percent funding to cost sharing. We have moved from free services to allowing our funded organizations to charge a nominal fee for the services provided.

The benefits of the BDC's—I will end on this note—will be that we can leverage public and private sector resources. All States, the 37 States and 100 cities and 2,500 major corporations, will be linked up to the centers, primarily identifying opportunities, identifying resources.

It is my view that minority business development to a large extent is an information management problem. We need to gather information about people, information about opportunities, and match them up.

Among the new performance measurements that I think are important: We will for the first time be measuring productivity. We know what the input levels are, the funding levels for the centers. Now, for the first time, we will determine how many businesses were started, were saved, were expanded, and how many jobs created and saved. Those are the outputs.

We are going to rank the 100 centers so each of you will know in your respective States how many dollars went in and what the output was and, very importantly also, how that compares with the outputs of other States.

We are also thinking now of ranking or grading the centers on a curve so that the bottom 20 percent will be dropped if they do not have the performance relative to other centers. That is an element

of competition. It is an element of incentive that we are introducing for the first time.

The advocacy function is extremely important, too. I mentioned the need to identify constraints on minority business development. Each business development center will have an advocacy function of holding quarterly meetings with minority business and other leaders to identify the local constraints to minority business development.

Then, very importantly, they will make recommendations to the policymakers here in Washington or at the State houses on what actions they can take to remedy the situation as well as actions that local entrepreneurs can take of a self-help nature.

I think that is extremely important. We can no longer develop, I think, a general policy for minority business development here in Washington. The conditions in New York are very different from those of Atlanta. The conditions within Miami in Liberty City versus downtown Miami are two different things.

We need to develop or allow input from the minority community to identify what actions we can take consistent with their local needs.

The last point or advantage: The networking system at the 100 centers will be linked by terminals. In effect we have a national linkage for the first time.

These development centers will also serve as a focal point for the entrepreneur. We hope to attract the person who can make something happen. I was very impressed by the comments of the people here. It is not only perseverance, but you need to know about the opportunity. Given an opportunity, most entrepreneurs can create something and make something happen.

Mr. Chairman, I believe that our new program deals with many of the problems and causes discussed here today. We have designed programs whose effectiveness can be measured. It also provides us with an opportunity for greater governmentwide coordination. It also would allow increased private sector involvement.

We will periodically evaluate our performance to insure that we are on the right track. I look forward to working with the committee to help resolve the troublesome issues that confront minority firms.

I will be happy to answer any questions.

[The prepared statement of Mr. Rivera follows:]

STATEMENT OF VICTOR M. RIVERA

DIRECTOR

MINORITY BUSINESS DEVELOPMENT AGENCY

DEPARTMENT OF COMMERCE

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

CONCERNING THE CONTRIBUTIONS OF

MINORITY BUSINESS TO THE ECONOMY

JUNE 23, 1982

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss what measures are needed to enable minority businesses to expand and participate more fully in the Nation's economic recovery. Over the course of the last year and one-half we have been examining closely the needs of minority entrepreneurs and we appreciate the opportunity to discuss our findings with the Committee.

The latest data available from the Census Bureau show that minorities own businesses at a rate only one-fifth that of non-minorities -- 14 minority-owned businesses for each 1000 persons as compared to 63 businesses for each 1000 non-minority persons. While minorities comprised 19% of the population in 1977, they owned only 6% of the number of firms and their firms received only 3.5% of the gross

receipts.* Clearly, minorities are not participating in the free enterprise system to the extent their numbers would indicate they should. To increase the participation rate of minority firms, it is necessary to counter the principal causes of the low participation rate -- relatively low business formation and growth rates, and a higher than normal failure rate.

The causes of the low business formation and growth rates and the high failure rate of minority firms are many, including: the absence of business role models; the low social status accorded to business ownership in the minority community; the lack of business knowledge; the restricted access to capital; and prejudices which limit the number of business opportunities.

There are no quick and easy solutions to the problems facing minority businesses. If we hope to overcome these problems in a reasonable period of time, however, we believe it is necessary for the Federal Government, in cooperation with the state and local governments and the private sector, to serve as a catalyst to foster the growth of minority firms. We have refocused our programs to ensure that MBDA's resources are used in the most productive way to attack the

*1977 Survey of Minority Business (issued in 1981). Total employment in all minority-owned firms was 499,271; total employment in Black firms was 164,177.

problems and increase the opportunity for minority entrepreneurs to participate in the free enterprise system by forming and developing competitive firms. Consistent with the Administration's overall economic program, we seek to increase these opportunities through private-sector involvement and entrepreneurial self-reliance. To carry out this mission we have established the following objectives:

1. Encourage the formation of minority businesses by --

   - o matching minority entrepreneurs with market opportunities and providing information, resources, knowledge and skills necessary to start and manage a business;

   - o investigating and developing alternative mechanisms to channel savings and wealth for equity investments in minority businesses.

2. Promote increased growth rates in minority businesses by --

   - o matching minority business capabilities with high growth market opportunities;

- o increasing awareness and providing information about the risks and rewards of high growth business;

- o increasing minority business access to sources of capital.

3. Reduce failure rates by assisting minority businesses in planning and implementing sound, competitive strategies through --

   - o decreasing high debt dependence by providing greater access to equity capital;

   - o providing information and management assistance about alternative capital structures;

   - o promoting the growth of minority businesses to help maintain operations in periods of adversity; and

   - o providing minority businesses with management and technical assistance to help them solve specific problems.

In order to accomplish these goals, we are in the process of establishing a system of Business Development Centers (BDCs). The concept behind the BDCs is to develop a national network of centers to provide minority-owned firms and individuals with comprehensive assistance. In the past, Federal Government agencies, state and local governments, and the private sector have attempted to implement minority enterprise development programs independently of one another. Assistance under those programs includes financial assistance through loans and guarantees, bonding and procurement assistance, management and technical assistance, bid preparation assistance and assistance in the identification of business opportunities. The BDC program has been designed to coordinate within a geographic area all resources of minority business assistance within one Business Development Center.

The primary activities under the BDC program will be to assist minority businesses by:

- developing inventories of minority-owned firms, procurement and contract offices, and capital sources;

- matching qualified minority firms with business opportunities;

- o providing management and technical assistance as needed;

- o leveraging Federal funds with other non-Federal and private sector funds;

- o assisting the local minority business community in advocacy by identifying and removing restrictions and barriers which impede the formation, expansion and survival of minority businesses;

- o promoting non-minority private sector involvement in the local minority business effort; and

- o providing specialized consulting services to meet special needs of minority businesses.

Each center will act, in effect, as a resource manager of programs and information available to minority businesses in a given geographic area. We are also planning to provide access to all MBDA programs in the initial BDC, with future plans to incorporate other Federal agency initiatives. All other MBDA programs are being modified this year to support the BDC network by identifying resources and information, and by referring clients to the centers. We will hold the centers accountable for their performance by evaluating them periodically to ensure that we are obtaining the greatest

results for our investment in terms of the creation and retention of businesses and jobs.

MBDA will also be establishing 7 Indian Business Development Centers to provide the same type of services to meet the needs of tribal-owned and Indian-owned businesses. For rural areas not served by the BDC network, MBDA will conduct a Rural Assistance Program to provide management and technical services to minority businesses and individuals located in these areas. This program will start September 1, 1982, and at the outset will provide services in ten states. Both the SBA and the Farmers Home Administration will assist us in obtaining promising referrals.

While we believe the Business Development Centers will prove highly useful to minority businesses, special efforts need to be made to increase the penetration of minority firms in the state and local government procurement market, in export trade, and in high-growth and technology-based industries. In the area of state and local government procurements, for example, annual procurements of goods and services are estimated at $280 billion -- a figure which greatly exceeds the total Federal procurement of $120.6 billion in 1981. The minority share of this market, however, may amount to only one-tenth of 1% of the total available procurement dollars, according to a 1982 Report by the National Institute of Government Purchasing, Incorporated.

One of the reasons minority businesses are not faring well in the state and local government market can be attributed to its complexity. There are approximately 80,000 state and local government purchasing agents responsible for procuring goods and services. The state and local governments also use thousands of individual procurement systems, a fact which results in a jumble of confusing and contradictory requirements. We believe that all three levels of the government can do much more to assist minorities in obtaining a greater share of the market.

MBDA is funding 17 state and 3 city offices to support the BDC network and assist in the targeting of state and local procurement opportunities and the identification of the available skills which are being solicited. These organizations are also expected to take an aggressive role in identifying and coordinating Federal and private sector initiatives in order to create a truly comprehensive and statewide program for minority business development. For FY 1983, the Agency intends to expand its state and local government program activities to cover 30 states and 75 cities.

In the area of exports, MBDA is conducting a program to help minority businesses enhance their export capabilities. In FY 1982, MBDA will award $1.5 million in financial assistance through the Minority Export Development Consultant Program. By August 1, 1982, MBDA will select 15 consultants for awards

of $100,000 each in 18 selected cities across the United States. These consultants will provide assistance to minority-owned firms in developing export marketing plans, identifying potential markets and specific leads, and in providing technical assistance needed to complete international transactions. We expect this program to generate $15 million in new export sales and contracts for minority businesses over the 12 month pilot effort.

In order to assist minority firms in penetrating high-growth technological fields, MBDA through its Technology Commercialization Program (TCP) helps identify technologies which will enable minority firms to participate in technology-based industries and high growth industries -- areas which minorities up to now have seldom penetrated. This program helps minority businesses to gain access to these markets with commercial potential and to locate financing for new product development. In FY 1981, the eight Technology Commercialization Centers funded by the program helped generate $22.8 million of business receipts for minority firms. In addition, the centers are currently sponsoring 60 commercialization projects. The program draws nationwide support from a growing list of resources that now includes almost fifty Fortune 500 companies and twenty Federal agencies. We are in the process of establishing two new technology commercialization centers, one in Texas and one in Illinois.

While there is a long way to go to make the minority business sector a strong segment of the economy, we are making progress. The minority business participation rate, while low, is increasing. Census Bureau data show that minorities are now entering lines of business which they traditionally have not entered, such as manufacturing, wholesale trade and business services. A recent study of financial data shows that well-established minority firms are equally profitable as comparable non-minority firms. In addition, Federal procurements monitored by the Interagency Council for Minority Business Enterprise (IAC) have continued to grow. In FY 1981, this amount -- which includes procurements under SBA's 8(a) program -- reached $4.1 billion and 98% of the IAC established goals. This amount represents an increase of almost $1 billion from 1980. When loans, guarantees and grants to minority businesses are included, the amount in 1981 was $7 billion, up from $5.8 billion in FY 1980. We believe the new directions we are giving to MBDA's programs will set the stage to make even greater progress. By tightening our performance measurements and redesigning our delivery system, we believe we will obtain palpable results over the course of the coming months.

Mr. Chairman, we are confident that the measures we are taking at MBDA will help the minority business community to strengthen its position in the economy. Throughout my directorship, we will periodically evaluate our performance to ensure that we are on the right track. I look forward to working with the Committee to help resolve the troublesome issues confronting minority firms. I will be happy to answer any questions you have.

Senator GORTON. Dr. Wright?

STATEMENT OF DR. ROBERT L. WRIGHT, JR., ASSOCIATE ADMINISTRATOR, OFFICE OF MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Dr. WRIGHT. Senator Gorton, Senator Nunn, I would like to express my gratitude for the opportunity to appear before you today to discuss issues relating to minority business and its contribution to the U.S. economy.

Specifically, I wish to address the Small Business Administration's programs for small socially and economically disadvantaged entrepreneurs. Through these programs, the SBA fulfills an important mission, that of providing the maximum practicable opportunity for participation in our free enterprise system by disadvantaged groups and individuals.

Despite criticisms frequently leveled against these programs, I believe the opportunities SBA has provided in the past and continues to provide are among the best tools in Government to facilitate entry of small disadvantaged businesses into the mainstream of the Nation's economy.

In particular, the 8(a) program has afforded many small businesses access to Government contracts as well as to targeted technical, marketing, and financial assistance. These 8(a) firms not only have provided goods and services to the Government at fair and reasonable prices, but also have contributed to the economic health of communities in which these concerns are located. We estimate that the 8(a) program has been responsible for the creation and retention of some 32,000 jobs.

In 1968 when the program began, only eight Federal contracts were let at a total value of $10.5 million. The 1981 statistics have been finalized and show that 4,538 Government contracts with a total value of nearly $1.8 billion were awarded to 8(a) firms. This is a new high for the agency.

Since the 8(a) program has been in existence, a total of over $6 billion in Government contracts have been awarded to 8(a) contractors. Each of those dollars represents an opportunity which would not have existed without this program.

As a result of these procurement opportunities, the 8(a) program has resulted in the development of some of the strongest minority businesses in the country. For example, of the 100 top black businesses listed in the annual report published in Black Enterprise magazine, 26 are 8(a) firms.

The experience gained by 8(a) firms is beginning to bear fruit. For example, one 8(a) firm was recently awarded a $32 million emergency communications contract which could turn into the largest single series of contracts ever awarded to a minority-owned firm if contract follow-ons materialize as expected. The president of that firm recently won the black enterprise achievement award for his innovative, technological contributions in the field of electronics.

There is no question but that the procurement contracts provided through the 8(a) program have enhanced not only the technical ca-

pability of our firms but have further increased the rate of capital acquisition among minority firms.

Moreover, simply learning the Government procurement process is an educational dividend resulting from the program which cannot be overlooked.

We believe that the benefits of the 8(a) program are indeed manifold. However, one of the larger problems which has faced this program in the past has been that of a nearly nonexistent turnover rate. The cradle to grave expectations of our firms prevented other equally deserving firms from participating.

In order to remedy this situation, the Congress enacted Public Law 96-481 which required all participants to have a mutually agreed fixed term of participation. SBA successfully negotiated such fixed terms with all participating firms. We believe that with such terms in place, a greater number of disadvantaged entrepreneurs will have access to the benefits of the program.

Another important aspect of our mission to assist minority entrepreneurs is our outreach effort. Over the past year we conducted 11 conferences throughout the country for all 8(a) contractors to advise them of our new program direction, including fixed-term procedures.

Through our section 7(j) authorization, we have funded for fiscal year 1980 various projects sponsored by several minority trade associations and have further funded their operating expenses.

Plans are now being developed for intensive training symposia to be held prior to the end of this fiscal year in locations throughout the country. The curricula include such subjects as contract cost and pricing, how to market to the private sector, management strategies for small businesses, and marketing with the Federal Government. The training programs will be for the benefit of 8(a) contractors as well as non-8(a) disadvantaged entrepreneurs.

Another example of outreach in which we continue to be involved this year is a special initiative aimed at increasing the number of 8(a) firms in Puerto Rico. We are working together with the White House, the Department of Defense, and the Puerto Rican Government to identify labor intensive minority firms in an effort to provide the opportunity for business development as well as jobs to those suffering the ravages of an unemployment rate which is nearly 25 percent in that area.

Private sector outreach efforts have also gotten underway this year. Our Presidential Advisory Committee is currently exploring the possibility of incentives to leverage additional private sector commitment to and involvement in the minority business development process. The current Presidential Advisory Committee is concentrating almost entirely on the private sector.

During my tenure as associate administrator, I have worked to promote the interest of minority small business in many different ways. I have regularly communicated with 8(a) concerns and with minority trade associations. Meetings have been held with major corporations, commercial lending executives, and other business people to develop business relationships with disadvantaged concerns.

These examples are not exhaustive. Rather, they are intended to illustrate our determination that our outreach activities not fall short of the statutory charge given to us by Public Law 96–481.

Indeed, insuring that our disadvantaged business efforts includes more than the 8(a) program alone is one of our priorities.

The 1980's will be a challenging period for all small businesses. We feel that we have made important strides in the minority business effort and look to continue progress in assisting minority firms to strengthen themselves and become viable businesses no longer needing Federal assistance.

In conclusion, let me reiterate that the Small Business Administration is deeply committed to making a substantial contribution to the development of small socially and economically disadvantaged businesses in this country. In order to accomplish that mission for the greatest possible number of firms, we must be ever mindful that our success and the success of our firms will be contributing immeasurably to the economic and social health of our country.

Thank you.

I will be happy to answer any question.

[The prepared statement of Dr. Wright follows:]

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF
ROBERT L. WRIGHT, JR.
ASSOCIATE ADMINISTRATOR FOR MINORITY
SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE
COMMITTEE ON SMALL BUSINESS
U.S. SENATE

JUNE 23, 1982

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I WANT TO EXPRESS MY GRATITUDE FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS ISSUES RELATING TO "MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY."

SPECIFICALLY, I WISH TO ADDRESS THE SMALL BUSINESS ADMINISTRATION'S PROGRAMS FOR SMALL SOCIALLY AND ECONOMICALLY DISADVANTAGED ENTREPRENEURS. THROUGH THESE PROGRAMS, THE SBA FULFILLS AN IMPORTANT MISSION -- THAT OF PROVIDING THE MAXIMUM PRACTICABLE OPPORTUNITY FOR PARTICIPATION IN OUR FREE ENTERPRISE SYSTEM BY DISADVANTAGED GROUPS AND INDIVIDUALS.

DESPITE CRITICISMS FREQUENTLY LEVELED AGAINST THESE PROGRAMS, I BELIEVE THE OPPORTUNITIES SBA HAS PROVIDED IN THE PAST AND CONTINUES TO PROVIDE ARE AMONG THE BEST TOOLS IN GOVERNMENT TO FACILITATE ENTRY OF SMALL DISADVANTAGED BUSINESSES INTO THE MAINSTREAM OF THE NATION'S ECONOMY.

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IN PARTICULAR, THE 8(A) PROGRAM HAS AFFORDED MANY SMALL BUSINESSES ACCESS TO GOVERNMENT CONTRACTS AS WELL AS TO TARGETED TECHNICAL, MARKETING, AND FINANCIAL ASSISTANCE. THESE 8(A) FIRMS NOT ONLY HAVE PROVIDED GOODS AND SERVICES TO THE GOVERNMENT AT FAIR AND REASONABLE PRICES, BUT ALSO HAVE CONTRIBUTED TO THE ECONOMIC HEALTH OF COMMUNITIES IN WHICH THESE CONCERNS ARE LOCATED. WE ESTIMATE THAT THE 8(A) PROGRAM HAS BEEN RESPONSIBLE FOR THE CREATION AND RETENTION OF SOME 32,000 JOBS.

IN 1968, WHEN THE PROGRAM BEGAN, ONLY EIGHT FEDERAL CONTRACTS WERE LET AT A TOTAL VALUE OF $10.5 MILLION. THE 1981 STATISTICS HAVE BEEN FINALIZED AND SHOW THAT 4,538 GOVERNMENT CONTRACTS WITH A TOTAL VALUE OF NEARLY $1.8 BILLION WERE AWARDED TO 8(A) FIRMS. THIS IS A NEW HIGH FOR THE AGENCY. SINCE THE 8(A) PROGRAM HAS BEEN IN EXISTENCE, A TOTAL OF OVER $6 BILLION IN GOVERNMENT CONTRACTS HAVE BEEN AWARDED TO 8(A) CONTRACTORS. EACH OF THOSE DOLLARS REPRESENTS AN OPPORTUNITY WHICH WOULD NOT HAVE EXISTED WITHOUT THIS PROGRAM.

AS A RESULT OF THESE PROCUREMENT OPPORTUNITIES, THE 8(A) PROGRAM HAS RESULTED IN THE DEVELOPLENT OF SOME OF THE STRONGEST MINORITY BUSINESSES IN THE COUNTRY. FOR EXAMPLE, OUT OF THE 100 TOP BLACK BUSINESSES LISTED IN THE ANNUAL REPORT PUBLISHED IN "BLACK ENTERPRISE" MAGAZINE, 26 ARE 8(A) FIRMS.

THE EXPERIENCE GAINED BY 8(A) FIRMS IS BEGINNING TO BEAR FRUIT. FOR EXAMPLE, ONE 8(A) FIRM WAS RECENTLY AWARDED A $32 MILLION EMERGENCY COMMUNICATIONS EQUIPMENT CONTRACT WHICH COULD TURN INTO THE LARGEST SINGLE SERIES OF CONTRACTS EVER AWARDED TO A MINORITY-OWNED FIRM IF CONTRACT FOLLOW-ONS MATERIALIZE AS EXPECTED. THE PRESIDENT OF THAT FIRM RECENTLY WON THE BLACK ENTERPRISE ACHIEVEMENT AWARD FOR HIS "INNOVATIVE, TECHNOLOGICAL CONTRIBUTIONS IN THE FIELD OF ELECTRONICS."

THERE IS NO QUESTION BUT THAT THE PROCUREMENT CONTRACTS PROVIDED THROUGH THE 8(A) PROGRAM HAVE ENHANCED NOT ONLY THE TECHNICAL CAPABILITIES OF OUR FIRMS BUT HAVE FURTHER INCREASED THE RATE OF CAPITAL ACQUISITION AMONG MINORITY FIRMS. MOREOVER, SIMPLY LEARNING THE GOVERNMENT PROCUREMENT PROCESS IS AN EDUCATIONAL DIVIDEND RESULTING FROM THE PROGRAM WHICH CANNOT BE OVERLOOKED.

WE BELIEVE THAT THE BENEFITS OF THE 8(A) PROGRAM ARE INDEED MANIFOLD. HOWEVER, ONE OF THE LARGER PROBLEMS WHICH HAS FACED THIS PROGRAM IN THE PAST HAS BEEN THAT OF A NEARLY NON-EXISTENT TURNOVER RATE. THE "CRADLE TO GRAVE" EXPECTATIONS OF OUR FIRMS PREVENTED OTHER EQUALLY DESERVING FIRMS FROM PARTICIPATION. IN ORDER TO REMEDY THIS SITUATION, THE CONGRESS ENACTED PUBLIC LAW 96-481 WHICH REQUIRED ALL PARTICIPANTS TO HAVE A MUTUALLY AGREEABLE FIXED TERM OF PARTICIPATION. SBA SUCCESSFULLY NEGOTIATED SUCH FIXED TERMS WITH ALL PARTICIPATING FIRMS. WE BELIEVE THAT WITH SUCH TERMS IN PLACE, A GREATER NUMBER OF DISADVANTAGED ENTREPRENEURS WILL HAVE ACCESS TO THE BENEFITS OF THE PROGRAM.

ANOTHER IMPORTANT ASPECT OF OUR MISSION TO ASSIST MINORITY ENTREPRENEURS IS OUR OUTREACH EFFORT.

OVER THE PAST YEAR, WE CONDUCTED ELEVEN CONFERENCES THROUGHOUT THE COUNTRY FOR ALL 8(A) CONTRACTORS TO ADVISE THEM OF OUR NEW PROGRAM DIRECTION, INCLUDING FIXED TERM PROCEDURES. THROUGH OUR SECTION 7(J) AUTHORIZATION, WE HAVE FUNDED FOR FISCAL YEAR 1982 VARIOUS PROJECTS SPONSORED BY SEVERAL MINORITY TRADE ASSOCIATIONS AND HAVE FURTHER FUNDED THEIR OPERATING EXPENSES. PLANS ARE NOW BEING DEVELOPED FOR INTENSIVE TRAINING SYMPOSIA TO BE HELD PRIOR TO THE END OF THIS FISCAL YEAR IN LOCATIONS AROUND THE COUNTRY. THE CURRICULA INCLUDE SUCH SUBJECTS AS "CONTRACT COST AND PRICING," "HOW TO MARKET TO THE PRIVATE SECTOR," "MANAGEMENT STRATEGIES FOR SMALLER BUSINESSES," AND "MARKETING WITH THE FEDERAL GOVERNMENT." THE TRAINING PROGRAMS WILL BE FOR THE BENEFIT OF 8(A) CONTRACTORS AS WELL AS NON-8(A) DISADVANTAGED ENTREPRENEURS.

ANOTHER EXAMPLE OF THE OUTREACH IN WHICH WE CONTINUE TO BE INVOLVED THIS YEAR IS A SPECIAL INITIATIVE AIMED AT INCREASING THE NUMBER OF 8(A) FIRMS IN PUERTO RICO. WE ARE WORKING TOGETHER WITH THE WHITE HOUSE, THE DEPARTMENT OF DEFENSE, AND THE PUERTO RICAN GOVERNMENT TO IDENTIFY LABOR INTENSIVE MINORITY FIRMS IN AN EFFORT TO PROVIDE THE OPPORTUNITY FOR BUSINESS DEVELOPMENT AS WELL AS JOBS TO THOSE SUFFERING THE RAVAGES OF AN UNEMPLOYMENT RATE WHICH IS NEARLY 25% IN THAT AREA.

PRIVATE SECTOR OUTREACH EFFORTS HAVE ALSO GOTTEN UNDERWAY THIS YEAR. OUR PRESIDENTIAL ADVISORY COMMITTEE IS CURRENTLY EXPLORING THE POSSIBILITY OF INCENTIVES TO LEVERAGE ADDITIONAL PRIVATE SECTOR COMMITMENT TO AND INVOLVEMENT IN THE MINORITY BUSINESS DEVELOPMENT PROCESS. THE CURRENT PRESIDENTIAL ADVISORY COMMITTEE (PAC) IS CONCENTRATING ALMOST ENTIRELY ON THE PRIVATE SECTOR.

DURING MY TENURE AS ASSOCIATE ADMINISTRATOR, I HAVE WORKED TO PROMOTE THE INTEREST OF MINORITY SMALL BUSINESS IN MANY DIFFERENT WAYS. I HAVE REGULARLY COMMUNICATED WITH 8(A) CONCERNS AND WITH MINORITY TRADE ASSOCIATIONS. MEETINGS HAVE BEEN HELD WITH MAJOR CORPORATIONS, COMMERCIAL LENDING EXECUTIVES, AND OTHER BUSINESS PEOPLE TO DEVELOP BUSINESS RELATIONSHIPS WITH DISADVANTAGED CONCERNS.

THESE EXAMPLES ARE NOT EXHAUSTIVE. RATHER, THEY ARE INTENDED TO ILLUSTRATE OUR DETERMINATION THAT OUR OUTREACH ACTIVITIES NOT FALL SHORT OF THE STATUTORY CHARGE GIVEN US BY P.L. 96-481. INDEED, INSURING THAT OUR DISADVANTAGED BUSINESS EFFORT INCLUDES MORE THAN THE 8(A) PROGRAM ALONE IS ONE OF OUR PRIORITIES.

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THE 1980'S WILL BE A CHALLENGING PERIOD FOR ALL SMALL BUSINESSES. WE FEEL WE HAVE MADE IMPORTANT STRIDES IN THE MINORITY BUSINESS EFFORT AND LOOK TO CONTINUED PROGRESS IN ASSISTING MINORITY FIRMS TO STRENGTHEN THEMSELVES AND BECOME VIABLE BUSINESSES NO LONGER NEEDING FEDERAL ASSISTANCE.

IN CONCLUSION, LET ME REITERATE THAT THE SMALL BUSINESS ADMINISTRATION IS DEEPLY COMMITTED TO MAKING A SUBSTANTIAL CONTRIBUTION TO THE DEVELOPMENT OF SMALL SOCIALLY AND ECONOMICALLY DISADVANTAGED BUSINESSES IN THIS COUNTRY. IN ORDER TO ACCOMPLISH THAT MISSION FOR THE GREATEST POSSIBLE NUMBER OF FIRMS, WE MUST BE EVER MINDFUL THAT OUR SUCCESS AND THE SUCCESS OF OUR FIRMS WILL BE CONTRIBUTING IMMEASURABLY TO THE ECONOMIC AND SOCIAL HEALTH OF OUR COUNTRY.

Senator GORTON. Thank you both.

I would like each of you to comment on the extent to which there is any rivalry or competition between your two agencies in connection with your small business programs. Are they totally complementary of one another? Do you check carefully with one another about both administration and policy directions?

Mr. RIVERA. I will take that one first.

I spent 8 years at the SBA. I know the programs and many of the people there, I think, fairly well. I believe I have established a good working relationship with Bob Wright. We communicate fairly well and fairly often.

As I mentioned, we recently signed a memorandum of agreement to assist 8(a) firms. We meet periodically to discuss issues of mutual concern.

Dr. WRIGHT. Senator, I would just like to echo what Victor has said. I certainly think there are areas that we have identified through our memorandum of agreement that certainly enables us to work together a lot more closely and eliminates perhaps any overlapping and duplication that might exist otherwise.

I am very pleased that we have done that. I think it is certainly going to enhance our ability to deliver services to minority businesses.

Senator GORTON. I think both of you were here through most of the morning. There was some criticism I specifically remember coming from Mr. Mayorga, Dr. Wright, about the enforcement of Public Law 95-507. Do you have any response to that criticism? Are you doing more to attempt to implement that law?

Dr. WRIGHT. You know, 95-507 has been with us now since 1978. After 95-507, of course we were confronted with 96-481. We cer-

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tainly are trying to be very aggressive in implementing that law. I think Congress in its wisdom created a vehicle that certainly gives us an opportunity to strengthen the minority business community in this country. To the extent that we can continue to provide that kind of assistance, we certainly intend to do so.

Senator NUNN. What was the latter statute you mentioned?

Dr. WRIGHT. 96-481, Senator. That was the statute that basically mandated that we set and develop criteria for setting fixed program participation terms for firms in the 8(a) program.

Senator NUNN. Dr. Wright, what do you think about the proposal to have preclearance or predesignation on bonding capabilities with the SBA? In other words, having companies that negotiate with SBA in advance about their general capability and get some idea about their bonding capacity from SBA and a firm commitment subject to the liability of the particular contract that would be bonded?

Dr. WRIGHT. I listened to that comment. I think it is something that we certainly should look at. We do not have in place presently that precertification vehicle. I can see certain aspects of that that certainly can be beneficial.

Senator NUNN. It seems to me it would not be an additional burden on time if you could get out in front of the problem. I know for a period of time there would be a real management problem to keep up to the day-to-day requests and yet get out in front.

Dr. WRIGHT. Right.

Senator NUNN. Yet over a period of 3 to 4 years, if you could get out in front with that preclearance, it seems to me that it probably would be time saving because then you would not have to review on a case-by-case basis the general capability of the business involved but rather focus on the particular contract that they are going into.

Dr. WRIGHT. Sure. We would like to do some research on that and explore it further. We will submit something back to this committee relative to that.[1]

Senator NUNN. I would like very much to see that. I think that was a very attractive suggestion. There may be pitfalls that we cannot anticipate, but it seems to me that based upon my experience in trying to help firms with bonding that would be a great assistance to them.

It is very difficult to compete. I have had two or three cases where I have tried to help firms in a compressed timeframe. They have had to come in with a bid and they have to demonstrate bonding capacity in order to be deemed competitive in the non-8(a) environment. They simply cannot get a positive response in time to be competitive.

I would like to get your response on that.

Dr. WRIGHT. All right.

Senator NUNN. The other subject we are faced with constructive criticism on is the graduation feature of the SBA program. Could you briefly explain how you set up the graduation criteria now?

Dr. WRIGHT. That again was mandated under the public law that you inquired about, 96-481. Congress, I think in October of 1980,

[1] Information not available at time of going to press.

said that we should have fixed program participation terms set for all firms by the April 21, 1982.

As you can imagine, this became a rather laborious and intensive process to make sure that happened and at the same time protect the integrity of the procurement process and the firms.

First of all, we had to set up criteria. Rather we had to formulate regulations. We held hearings throughout the country relative to those regulations, which basically at that time stated that a firm should have between 3 and 5 years in which they could remain in the program.

After much input and hearings from around the country, finally the agency settled on a term of 5 to 7 years, 5 years plus a 2-year extension rather, for firms to participate in the program.

We did complete the mission by the statutory date of April 21. All firms received fixed program participation terms that chose to participate through the procedures.

Now there was something like 404 firms that did not choose to participate for one reason or another. Of those 400 firms, we began to institute termination proceedings. Many of them are perhaps out of business. Some of them perhaps did not choose to participate for one reason or another.

Each firm now has a fixed program participation term, a length of time in which they can remain in the program. There is also a vehicle through the extension process whereby a firm can request an additional extension of time over and above what has already been given to them.

Senator NUNN. How much discretion do you have under that? As I understand the law itself, it does give discretion in that regard because it is up to you to set the terms. I suppose if there are special circumstances, you could make a further extension, could you not?

Dr. WRIGHT. Absolutely. We are presently developing that extension criteria. We hope that we will have it completed within the next week to 10 days.

Senator NUNN. We heard a suggestion this morning that the last year of participation and the profitability of the last contract not be the only consideration, but the overall record from year one of the 8(a) participation through the final should be reviewed to give the agency some idea of where the firm is overall in terms of viability and economic profitability.

Do you think that has merit?

Dr. WRIGHT. I certainly do think it has merit. However, it is difficult to really define viability or competitive viability. We feel that the mission of the agency of course is to provide the maximum opportunity for these firms.

In the memorandum of understanding agreement we signed with MBDA, as these firms began to move into the final year of program participation, MBDA then would begin to assist the firm as it relates to more intensive private sector marketing than we would be able to do.

Senator NUNN. I think the law is very clear as to congressional intent in this program that the intent is to develop firms that can compete in the free enterprise system without governmental assistance on a competitive basis. That is the intent.

I think also a careful reading of the law indicates that congressional conference committees and the Congress as a whole intended that the emphasis be on developing viable firms with quality participation and not simply turning a lot of people through the program that cannot then compete.

Do you read that intent in your capacity in the SBA? Do you agree with that or do you have a different interpretation?

Dr. WRIGHT. It is certainly our desire, Senator, to try to move all our firms toward some degree of viability and some degree of competitiveness. To the extent that we can maximize the resources of our agency to do that, we intend to do so.

However, I think all of us realize that a certain amount of business development rests upon that individual. In any classroom of students you are going to have some that are going to be A students and some that are going to fail the course. I think we all have to realize that.

I think certainly it is incumbent upon us to maximize the resources of our agency to try to do all we can to move a firm toward a degree of viability and competitiveness.

Senator NUNN. Dr. Wright, one other question: I am asking for your personal opinion now, not for agency opinion or OMB's or anyone else. In your personal opinion, in the 8(a) program, do we need further changes in the law? Is the law satisfactory now, or would you change it in any respect? For instance, are there any defects with the graduation statute?

Dr. WRIGHT. Senator, right now I think we need a period of normalcy in the program. If we can settle down with the laws that are governing us right now and have an opportunity to implement those laws with certain modifications that may be needed as we move along, I, certainly, think we are in a position to make the program very stable and very responsive to the needs of the minority business community.

Senator NUNN. Thank you very much.

Mr. Rivera, I have just a couple of questions I want to ask you. I think your description of the business development centers is very exciting. I hope it works out as anticipated and planned.

Could you distinguish for us the difference between this type of development center and what you have in the past called general business services?

Mr. RIVERA. Sure, I would be glad to, Senator.

The contracts that were awarded in April 1981 on a competitive basis called for essentially two things: A fixed number—I believe it was $110,000—for 48 clients. The requirement was that the consulting firm help develop a business plan and provide 80 hours of management technical assistance.

As a result of that program, 1 year later I can report that our agency assisted in the preparation of some 6,000 business plans and provided 485,000 hours of management technical assistance.

Those are activities. Those are not results. I am almost embarrassed to report that as a result of that program—it was the last administration's program—there are 128 new businesses that were started. We have a budget in excess of $50 million.

What we are doing now is measuring results rather than activity and seeing what kind of impact we make on the formation rate, the expansion rate, and the failure rate.

Senator NUNN. You see these programs as aiming for the same general purpose but fundamentally different in the way they will be carried out. Is that right?

Mr. RIVERA. Our centers will work very closely as they have in the past, the GBS and others, with the SBA. In other words, I think approximately more than one-half of the 8(a) firms in the program now were clients of our funded organizations.

Senator NUNN. How are you going to measure the success? It is one thing if you have an outside objective kind of measurement. It is another thing if you have an internal numbers game where each center would say they were able to give 2 hours of advice to a minority firm like M. & M. Products and then M. & M. expanded by 100 people and they all of a sudden hold up their hand and say, "We did it. We did it."

How are you going to determine what is real and what is fiction?

Mr. RIVERA. We are looking for verifiable data from the minority firm that was assisted.

One of the elements that I think will help us in this is the fact that we are allowing the funded organizations, the BDC's, to charge a nominal fee. It will be 10 percent for those firms doing less than $500,000 a year and 25 percent of the cost for those above $500,000. It will average to about $2.50 an hour or $6.25 an hour, which is nominal.

I have spoken to a number of providers of services as well as minority firms. In the past, a firm that received up to 80 hours of assistance felt in no way obligated or concerned about whether the advice was good or bad. It was not costing him or her anything.

When a person has to take the money out of their pocket, you can be sure that they will be more involved with it and probably take the advice. If the advice is not proper or is bad or is not provided, they will complain to us.

Senator NUNN. Are you going to be involved in providing marketing services, consulting services, management services, and that kind of thing?

Mr. RIVERA. Yes; the three elements that I talked about before, one was the development of inventories, of locating, identifying, and maintaining. Maintaining is the key word.

I would like to have a fraction of the money the Government has spent to develop and try to locate qualified minority firms. Our own agency has funded States, cities, and x number of funded organizations to provide that service. The Department of Transportation, DOD, and others do that.

We would hope that in the not too distant future our BDC centers will be the focal point for developing and maintaining that inventory.

Then we also develop and maintain inventories of opportunities, ownership opportunities, and market opportunities, and also inventories of capital sources, and management technical assistance sources. The idea is to match an opportunity with a firm and then provide comprehensive assistance.

I think too often we help people get loans without making sure that they have sales or marketing strategy which will enable them to repay the loan.

Senator NUNN. Are these centers strictly for minorities, or are they broader?

Mr. RIVERA. Strictly for minorities.

Senator NUNN. What do you see as the difference between these and the SBDC's under the SBA?

Mr. RIVERA. As I said, we will be conducting inventories. There is some similarity, but we do not provide the small business centers' academic environment. Ours are located in 100 cities that would account for about 90 percent of the population and greater accessibility for the minority business population in this country.

The small business centers do not maintain inventories of opportunities, of firms, and do the brokering.

Senator NUNN. Are you going to try to work with the SBDC's so that there will not be simply a duplication of effort here? I ask the same question of Dr. Wright.

Mr. RIVERA. We will be. That is foremost in our requirements, that all of our funded organizations, as well as other federally funded organizations. That is one of the major criticisms that I mentioned before, the duplication or the confusion in the minds of minorities of where to go for help.

Very often it is costly to the taxpayer because people jump around from one source to the other. Very often the service in the past was free. Our centers will be charging. That will make a difference.

Senator NUNN. Dr. Wright?

Dr. WRIGHT. I would just like to say, Senator, that the more we can identify areas of possible overlap and duplication and work harmoniously to try to eliminate that as we have tried to do with this memorandum, I think, as Vic has said, we will really be treating the taxpayer a lot better in terms of money.

Senator NUNN. I can easily visualize a GAO report coming in here in a year or two saying that the Commerce Department and the SBA have a duplication in programs and that they are not working together, that there is a waste of money and it creates confusion, and that one or the other or both of them ought to be abolished. Then the whole thing gets discredited.

I like your competitive approach. I am all for that. However, if the competition seems to spring over into a competition between these centers and the SBDC's and the people do not work together and try to grab the credit for different things, then we are going to have just another governmental program that is going to be severely criticized.

I think you have real merit in what you are trying to do, but I would really like to see a report back to this committee on this subject right from the outset as to how you are going to work together. I will propose this to Chairman Weicker and perhaps we can get out a joint letter. I would ask at least the minority staff at this stage to work up detailed questions, not to harass either one of your agencies but to at least let you know that we are very concerned about this possibility of duplication. When we go out on the

floor of the Senate and defend the appropriations in this area, we have to be able to answer these questions ourselves.

I will be getting that up. I am sure Chairman Weicker and Senator Gorton would join in that. I do think it is a danger signal that we better look at right now.

[Material follows:]

COMMITTEE ON SMALL BUSINESS,
Washington, D.C., June 28, 1982.

Hon. LOWELL WEICKER, Jr.,
Chairman, Committee on Small Business,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: First let me thank you for your willingness to convene a hearing on the positive contributions of minority business to the U.S. economy. I believe the hearing accomplished the purposes that I sought, and will reflect well on the Committee as a whole.

During that hearing, however, and in particular during the testimony of MBDA Director Rivera and SBA Associate Administrator Wright, I became concerned about the appearance of overlap and duplication between many of the efforts of these two agencies. Both Senator Gorton and I questioned them about this potential.

In particular, I was concerned about the Commerce Department's Business Development Center program, and the admission of the witnesses that it is very similar to the SBA-sponsored Small Business Development Center program which this Committee established. In addition, the General Accounting Office has already pointed out the appeaance of duplication in the MDBA-PROFILE (computer based, minority business procurement identifying system) and the SBA-PASS (computer based, small business procurement identifying system) programs.

I have asked my staff to carefully review the similarities and differences between these two programs in particular in both agencis, and to make the results of that review available to both of us. At a time when we must be concerned that each and every resource that is available for small business is utilized effectively, and as part of this Committee's overight responsibility, I thought we ought to review these programs while they are in their infancy.

Sincerely,

SAM NUNN.

Senator NUNN. Mr. Chairman, I do not have any other questions. I would say that I have known Dr. Bob Wright for a long time. He has many, many assets. He is the right man in the right job, in my opinion. The only problem he has is he has been known to consort with Republicans on occasion. However, he has so many assets that we even forgive him his transgressions in that area every now and then. We are proud of him and proud to have him here. He is from Columbus, Ga.

Senator GORTON. I suspected he might be from Georgia.

I would like to follow up on that last set of questions by Senator Nunn. Am I correct in having an understanding that the administration is working on a proposal to consolidate all minority programs into the Department of Commerce?

Mr. RIVERA. The Council on Commerce and Trade has set up a working group that is looking into or exploring the possibility of how to bring about certain economies, as well as improving the delivery of services to minorities. That is one option of several that are being explored.

Senator GORTON. Since Commerce will probably be proposing it, maybe Dr. Wright would like to comment.

Dr. WRIGHT. I think this whole issue of consolidation is probably one of the most critical issues that could have a profound impact on the minority business community. It, certainly, should be looked at very carefully.

My personal opinion on the subject, unless I see more information than I have received right now, is I certainly do not think it is in the best interests of the minority business community to consolidate.

However, I do think that the issues that the two of you have raised relative to our really seriously looking at overlapping duplication and where we could maximize the limited resources we have certainly does make a lot of sense to me.

Senator NUNN. It seems to me that in this area, some duplication is inevitable, but you have two functions that are separate in a sense.

Dr. WRIGHT. Right.

Senator NUNN. You are talking about pooling information, opportunities, and so forth. SBDC's do not do that as a matter of course. That is not their main job.

You are also talking about, Mr. Rivera, furnishing consulting services, marketing techniques, all of those things, which are essential. There is no doubt about it. The question is where that ought to come.

It seems to me that if you had a close working relationship with the SBDC's, your advantage is that you have a national network and you are located in the major cities. The SBDC's have an advantage of being tied in with the academic community and being tied in with the universities.

Also, most importantly—I am sure this would be of interest to the Reagan administration knowing the philosophy of federalism—of having strong support of State governments and of the people who are putting State money in it. I do not think that should be overlooked at all.

All of those advantages are very apparent. If all of a sudden we have SBDC's off the ground someone is going to say, "Oh, we have this new Commerce Department program. Let us abolish SBDC's and merge them all." I have seen these mergers take place, and over a 10- or 15-year period it might be a step in the right direction.

However, for the next 2, 3, or 4 years, it is absolute chaos. I do not think minority businesses in America can afford to go through chaos when we are having so many problems in the general economy. I just do not think we can afford that 2- or 3-year gap. I really encourage you both to seize the initiative here and try to find out what it is that SBDC's are doing that you do not have to do in these new centers and that you can refer to them whenever possible. Otherwise we are going to have a real problem here, I think.

Senator GORTON. Thank you all very much.

We stand adjourned.

[Whereupon, at 12:30 p.m., the hearing was recessed, to reconvene at the call of the Chair.]

APPENDIX

AMERICAN CONSULTING ENGINEERS COUNCIL, MINORITY AFFAIRS POSITION STATEMENT

A. GENERAL PRINCIPLES

The American Consulting Engineers Council (ACEC) strongly supports programs designed to increase opportunities for firms headed by socially and economically disadvantaged persons. ACEC believes that socially and economically disadvantaged firms must be owned, operated and adequately staffed by licensed design professionals and that any and all contracts awarded to design firms should be based on the principles of procurement on the basis of qualification, in accordance with 40 U.S.C. 541 et seq. and/or the ABA Model Procurement Code.

In order to make the current programs more effective, ACEC supports:

1. Strict adherence to the following definitions of socially and economically disadvantaged business concerns and individuals, as defined in Public Law 95–507:

a. Socially and economically disadvantaged business concerns are those which are at least 51 percent owned by socially and economically disadvantaged individuals who are licensed design professionals; or in the case of any publicly-owned business, at least 51 percent of the stock is owned by socially and economically disadvantaged individuals who are licensed design professionals and whose management and daily business operations are controlled by such individuals. Those firms should also be making a demonstrated and measured commitment to employing socially and economically disadvantaged individuals in all positions.

b. Socially disadvantaged individuals are those who have historically been subjected to racial or ethnic prejudice or cultural bias in the United States because of their identity as a member of a minority group without regard to their individual qualities.

c. Economically disadvantaged individuals are those whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business who are not socially disadvantaged. In determining the degree of diminished credit and capital opportunities the Small Business Administration considers, but is not limited to, the assets and net worth of such economically disadvantaged individuals.

d. Women-owned business concerns are generally recognized by the federal, state and local governments under the category of socially and economically disadvantaged, although not specially mentioned in that definition. A woman-owned business concern means a business that is at least 51 percent owned by a woman or women who also control or operate it (making policy decisions and involved in day-to-day operations).

2. Establishment of a program of goals and set-asides for socially and economically disadvantaged business concerns through direct federal procurement, procurement under grants and subcontracting.

3. Establishment of criteria for both entry and graduation of firms to and from programs designed to assist developing miniroty- and women-owned firms.

4. Establishment of rigorous certification procedures to eliminate all but bona fide socially and economically disadvantaged firms from participation in the programs.

To bring about this policy ACEC will actively pursue specific changes in the body of laws and regulations governing programs to assist socially and economically disadvantaged businesses and individuals, both in the context of direct procurement from the federal government and procurement through federally-assisted programs administered by state and local governments.

B. DIRECT FEDERAL PROCUREMENT

The SBA 8(a) program is generally designed for the procurement of tangible goods and services and, historically, minority and women architects and engineers have not significantly benefited from the program. ACEC believes the 8(a) program has

not proved to be effective in providing business opportunities for socially and economically disadvantaged A-E firms. Nonetheless, it is the only legislative authority for such a program. Therefore, ACEC supports legislative enactment of a preference program for utilizing minority- and women-owned architectural-engineering firms, to be administered by a single agency, consistent with 40 U.S.C. 541 et seq.

C. PROCUREMENT UNDER GRANTS

ACEC believes Office of Management and Budget (OMB) Circular A-102, Attachment O, provides adequate emphasis on the importance of utilizing minority-and women-owned businesses in the context of procurement under grants. However, ACEC also believes that modifications to the Circular are necessary to provide consistency with 40 U.S.C. 541 et seq. for both majority and minority A-E firms under grants. ACEC will encourage federal agencies to provide such procurement guidance to state units of government and other potential grant entities. Further, ACEC is actively encouraging states to adopt procurement legislation including procedures under 40 U.S.C. 541 et seq. and providing for minority- and women-owned business utilization.

D. PROCUREMENT FROM THE PRIVATE SECTOR

ACEC will encourage the private sector to follow the general approach to minority- and women-owned utilization included herein.

Approved by the Board of Directors, May, 1982.

CAROLINA POWER & LIGHT CO.,
Raleigh, N.C., July 16, 1982.

MR. ED MAYORGA,
R&E Electronics, Inc.,
Wilmington, N.C.

DEAR MR. MAYORGA: This letter is in response to your correspondence dated June 24, 1982, to our Chairman, Sherwood H. Smith, Jr. As a company, we are dedicated to a policy of developing minority sources of supply, as well as multiple sources of supply for our procurement activities. By developing these sources, we complement our policy of securing competitive bidding for our needs to realize the lowest cost of service to our customers.

To stay abreast of the potential for developing minority sources of supply, our company has been a member of the Piedmont Minority Council for several years. Currently, one of our employees serves as Vice President of the council and is very active in the organization.

As I understand it, your company established a supplier relationship with our company at our Brunswick Steam Electric Plant in Southport. We appreciate this relationship and the fact that we are able in many instances to find our needs in our immediate service area. We look forward to an expanded source of supply from your company and this should happen if your prices are competitive.

The specific complaint outlined in your testimony before the Senate Committee on Small Business on June 23 has been investigated. This investigation shows that three proposals were received by our company for the telephone interconnect switch, to which you refer, one of which was received directly from the firm you represent, Harris-Digital. Your representative, Mr. Martin, was furnished this information, and he indicated that your company could not underbid the manufacturer. Thus, your firm did not receive the order.

Based on the information supplied to me, it appears that much of the misunderstanding pertaining to the purchase of this equipment could have been avoided by both parties had your sales personnel contacted our Corporate Purchasing Section in Raleigh. I would therefore recommend for your consideration in the future that your sales personnel follow up on field contacts with our purchasing personnel in Raleigh.

In order that Senator Weicker and Senator Nunn's Committee records may be complete on the subject of your testimony pertaining to Carolina Power & Light Company, I have forwarded a copy of this response to their offices.

Sincerely yours,

S. M. HENRY BROWN, Jr.

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ADDENDUM TO
MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

MINORITY BUSINESS AND ITS CONTRIBUTIONS TO THE U.S. ECONOMY

JUNE 23, 1982

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The following material, erroneously omitted, is a part of this previously printed hearing and follows after printed page 156.

[Response of Edward Mayorga, President, R&E Electronics, Inc., to letter from E. M. Henry Brown, Director of Public Affairs for Carolina Power & Light Co. follows:]

R&E ELECTRONICS, INC.,
Wilmington, N.C., September 22, 1982.

Hon. LOWELL WEICKER,
Committee on Small Business, U.S. Senate,
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR WEICKER: This letter is in response to the correspondence dated July 16, 1982, from Carolina Power and Light Co. to R&E Electronics, Inc., in which Mr. E. M. Henry Brown, Jr., Director of Public Affairs for CP&L outlines these points:

1. He states that CP&L is dedicated to a policy of developing minority sources of supply.

2. He mentions a supplier relationship between R&E and the CP&L Brunswick Steam Electric Plant in Southport.

3. He refers to my "representative" as being a Mr. Martin.

4. He says this misunderstanding could have been avoided had we gone through the Corporate Purchasing Section in Raleigh, N.C., and it was recommended that on future purchases we should deal with CP&L personnel in Raleigh.

In response to these specific points we would like to clarify the facts for the Committee's record:

1. If CP&L were indeed dedicated to the policy of developing minority sources of supply, they would have made a concerted effort to identify prospective bidders. CP&L has never awarded a telephone interconnect system to a minority owned company. Even though CP&L knows that R&E Electronics, Inc., is a minority owned company, we have never been given the opportunity to quote on this or any prior systems, nor on any systems subsequent to our correspondence of June 24, 1982.

2. Mr. Brown has attempted to justify CP&L's actions by noting a supplier relationship between R&E and the Brunswick Steam Plant in Southport; a relationship which never existed. The project to which I referred is located in Wilmington, NC. We have never quoted, nor have we been given the opportunity to quote, on any telephone project in Southport.

3. The "representative" Mr. Brown refers to does not work for us, nor does he represent us. R&E's sales representative, Ms. Jeanie Nickell, initiated contact with CP&L over one year ago when she first learned that CP&L had a need for a new telephone system in Wilmington. She continued to call on them before they signed a contract, and I visited them several times. They were well aware of our interest and capabilities and, to our knowledge, never put the project out for bid. R&E was never permitted to quote.

4. Mr. Brown notes that CP&L looks forward to an expanded source of supply from our company, anticipating that this should happen if our prices are competitive. If we were ever given an opportunity to quote, CP&L would find that our prices *are* competitive.

5. Mr. Brown concluded by recommending that if we wanted to sell telephone equipment to CP&L we should contact their corporate purchasing section in Raleigh. We have done this and have found out that certain CP&L districts including the one in Wilmington, do as they please. They often fail to follow their own corporate purchasing procedures, acting autonomously in lieu of going through Raleigh.

Even after our letter of June 24 again notified both the Wilmington office and CP&L's Purchasing Section of our capabilities, CP&L subsequently awarded another telephone contract to Carolina Telephone in Kinston, NC without even giving us the opportunity to quote.

Gentlemen, what Carolina Power and Light Company has done to us on these projects is unfortunately very typical of purchasing procedures in major industries. They give lip service to developing minority suppliers by joining minority purchasing councils; they appoint liaison officers, and they publish figures. However, when it comes time to place an order, they in actuality purchase high technology goods from other major industries and pet companies without the benefit of competitive bidding. And yet they claim to try to realize the lowest cost of services for their customers.

When a small company such as ourselves has a problem, we never hear from the "CP&L's" a single explanation of why something happened. We get a letter containing a lot of rhetoric from a public affair official "explaining" their position, containing erroneous information compiled without the courtesy of any research.

Why is it that the "CP&L's" never seem to err? No matter how erroneous we show their response to be, they will never admit to having discriminated against small and minority owned telecommunications firms.

Sincerely,

ED MAYORGA, *President.*

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